



Introduction to vector quantization and its applications for numerics

Gilles Pagès

► To cite this version:

Gilles Pagès. Introduction to vector quantization and its applications for numerics. ESAIM: Proceedings and Surveys, 2015, CEMRACS 2013 - Modelling and simulation of complex systems: stochastic and deterministic approaches, 48, pp.29-79. 10.1051/proc/201448002 . hal-01034196

HAL Id: hal-01034196

<https://hal.science/hal-01034196>

Submitted on 22 Jul 2014

HAL is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L'archive ouverte pluridisciplinaire **HAL**, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d'enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.

Introduction to optimal vector quantization and its applications for numerics

GILLES PAGES *

Abstract

We present an introductory survey to optimal vector quantization and its first applications to Numerical Probability and, to a lesser extent to Information Theory and Data Mining. Both theoretical results on the quantization rate of a random vector taking values in \mathbb{R}^d (equipped with the canonical Euclidean norm) and the learning procedures that allow to design optimal quantizers (*CLVQ* and Lloyd's I procedures) are presented. We also introduce and investigate the more recent notion of *greedy quantization* which may be seen as a sequential optimal quantization. A rate optimal result is established. A brief comparison with Quasi-Monte Carlo method is also carried out.

Keywords : Optimal vector quantization ; greedy quantization ; quantization tree ; Lloyd's I algorithm ; Competitive Learning Vector Quantization ; stochastic gradient descent ; learning algorithms ; Zador's Theorem ; Feynman-Kac's formula ; variational inequality ; optimal stopping ; quasi-Monte Carlo method ; nearest neighbor search ; partial distance search.

1 Introduction to vector quantization

1.1 Signal transmission, information

The history of optimal vector quantization theory goes back to the 1950's in the Bell laboratories where researches were carried out to optimize signal transmission by appropriate discretization procedures. Two kinds of "stationary" signal can be naturally considered: either a deterministic – more or less periodic – signal (denoted by $(x_t)_{t \geq 0}$) or a stochastic signal (denoted by $(X_t)_{t \geq 0}$), considered under its stationary regime, supposed to be ergodic. In both cases, these signals share an averaging property as will be seen further on. Vector quantization can be briefly introduced as follows.

Let $\Gamma = \{x_1, \dots, x_N\}$ be a subset of \mathbb{R}^d ($d \geq 1$) of size (at most) $N \geq 1$, called a *quantization grid* or simply a *quantizer* at level N if Γ has exactly cardinality N i.e. if the *elementary quantizers* x_i are pairwise distinct. When $d = 1$ the numbering of the elementary quantizers x_i is *a priori* made consistent with the natural order on the real line so that $i \mapsto x_i$ is non-decreasing.

In what follows, except specific mention, $|\cdot|$ will denote the canonical Euclidean norm on \mathbb{R}^d (although many of the stated results remain true or admit variants for more general norms).

A Γ -valued *quantization function* (also called *quantizer*) is simply any Borel function $q : \mathbb{R}^d \rightarrow \Gamma$. A naive idea is to transmit at time t the stochastic signal $q(X_t)$ instead of X_t itself inducing a resulting pointwise error

$$|X_t - q(X_t)|$$

*Laboratoire de Probabilités et Modèles aléatoires, UMR 7599, UPMC, case 188, 4, pl. Jussieu, F-75252 Paris Cedex 5, France. E-mail: gilles.pages@upmc.fr. This article is developed version of a mini-course delivered during the "École d'été" CEMRACS in July 2013 at CIRM (Marseille).

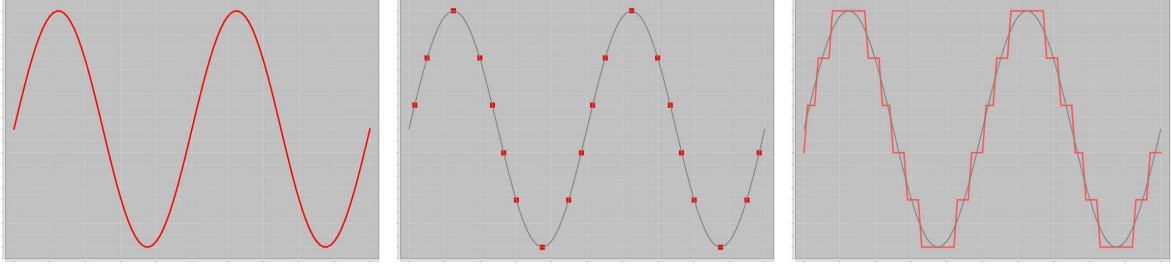


Figure 1: Quantization of a scalar (periodic) signal (B. Wilbertz)

One proceeds likewise for a deterministic signal with a resulting error $|x_t - q(x_t)|$.

▷ *Deterministic signal* : Let $p \in (0, +\infty)$. Assume that $\frac{1}{t} \int_0^t \delta_{x(s)} ds$ weakly converges as $t \rightarrow +\infty$ toward a distribution μ on $(\mathbb{R}^d, \mathcal{B}or(\mathbb{R}^d))$ such that $\int_{\mathbb{R}^d} |\xi|^p \mu(d\xi) < +\infty$. If the quantization function q is μ -a.s. continuous and, e.g., $\limsup_{t \rightarrow +\infty} \frac{1}{t} \int_0^t |x(s)|^r ds < +\infty$ for some $r > p$, then

$$\lim_{t \rightarrow +\infty} \left(\frac{1}{t} \int_0^t |x(s) - q(x(s))|^p ds \right)^{\frac{1}{p}} = \left(\int_{\mathbb{R}^d} |\xi - q(\xi)|^p \mu(d\xi) \right)^{\frac{1}{p}} = \|\xi - q(\xi)\|_{L^p(\mu)} < +\infty.$$

▷ *Stationary ergodic stochastic signal* : We consider again $p \in (0, +\infty)$. Assume the process $(X_t)_{t \geq 0}$ is stationary. Then, X_t has the same marginal distribution, say μ , for every $t \in \mathbb{R}_+$. Moreover, if $\mathbb{E} |X_t|^p = \int_{\mathbb{R}^d} |\xi|^p \mu(d\xi) < +\infty$, then

$$\|X_t - q(X_t)\|_{L^p(\mathbb{P})} = \|X_0 - q(X_0)\|_{L^p(\mathbb{P})} = \|\xi - q(\xi)\|_{L^p(\mu)} < +\infty.$$

Moreover, if the process $(X_t)_{t \geq 0}$ is ergodic, ergodic pointwise Birkhoff's Theorem ensures that

$$\mathbb{P}\text{-a.s.} \lim_{t \rightarrow +\infty} \left(\frac{1}{t} \int_0^t |X_s - q(X_s)|^p ds \right)^{\frac{1}{p}} = \|\xi - q(\xi)\|_{L^p(\mu)} < +\infty.$$

At this stage, several questions arise to optimize the transmission. Based on what precedes, we will mainly adopt from now on the *static* point of view of an \mathbb{R}^d -valued random vector X , defined on a probability space $(\Omega, \mathcal{A}, \mathbb{P})$, with distribution μ . It corresponds to the value of X_t at any time t or to the asymptotic behavior of the signal $(x(t))_{t \geq 0}$. More general situations of quantization or coding can be investigated in Information Theory which take into account the dynamics of the (ergodic) process leading to the most general Shannon's source coding theorem. For these deeper aspects from Information Theory, we refer to the general distortion theory as analyzed by large deviation methods in [22] and the references therein.

Question 1 *How to optimally choose the Γ -valued quantization function q (Geometric optimization)?*

It is clear that, whatever the quantization function $q : \mathbb{R}^d \rightarrow \Gamma$ is, one has

$$|\xi - q(\xi)| \geq \text{dist}(\xi, \Gamma)$$

where $\text{dist}(\xi, A) = \inf_{a \in A} |\xi - a|$ denotes the distance of ξ to the set $A \subset \mathbb{R}^d$ (with respect to the current norm). One easily checks that equality holds in the above inequality if and only if q is a Borel

nearest neighbour projection *i.e.* $q = \pi_\Gamma$ defined by

$$= \pi_\Gamma(\xi) = \sum_{i=1}^N x_i \mathbf{1}_{C_i(\Gamma)}(\xi)$$

where the N -tuple of subsets $(C_i(\Gamma))_{1 \leq i \leq N}$ is a Borel partition of $(\mathbb{R}^d, \mathcal{B}(\mathbb{R}^d))$ satisfying

$$\forall i = 1, \dots, N, \quad C_i(\Gamma) \subset \left\{ \xi \in \mathbb{R}^d : |\xi - x_i| = \min_{1 \leq j \leq N} |\xi - x_j| \right\}.$$

Such a partition of \mathbb{R}^d is called a *Voronoi partition* (or sometimes *tessellation*) induced by Γ . When the norm $|\cdot|$ is Euclidean the closures $\overline{C}_i(\Gamma)$ of the *cells* are non-empty polyhedral closed convex sets (intersection of finitely many half-spaces defined by median hyperplanes of the couples of points (x_i, x_j) , $i \neq j$). One easily shows that

$$\left\{ \xi \in \mathbb{R}^d : |\xi - x_i| < \min_{1 \leq j \leq N, j \neq i} |\xi - x_j| \right\} \subset \overset{\circ}{C}_i(\Gamma) \subset \overline{C}_i(\Gamma) \subset \left\{ \xi \in \mathbb{R}^d : |\xi - x_i| = \min_{1 \leq j \leq N} |\xi - x_j| \right\}.$$

The inclusions at both ends of the inclusion chain can be replaced by equalities *in an Euclidean framework*.

Then, for a given (static) random vector having values in \mathbb{R}^d , one defines a *Voronoi Γ -quantization* of X by Γ as

$$\widehat{X}^\Gamma = \pi_\Gamma(X).$$

Remark. For more developments on the non-Euclidean framework, like *e.g.* the ℓ^r -norms defined by $|\xi|_r = (|\xi^1|^r + \dots + |\xi^d|^r)^{\frac{1}{r}}$, $r \in [1, +\infty)$, or $|\xi|_\infty = \max_{1 \leq j \leq d} |\xi^j|$, $\xi = (\xi^1, \dots, \xi^d) \in \mathbb{R}^d$, we refer to [32], Chapter 1.

This leads us to define for $p \in (0, +\infty)$, the L^p -mean quantization error induced by a grid Γ by

$$e_p(\Gamma, X) = \|X - \pi_\Gamma(X)\|_{L^p(\mathbb{P})} = \|\text{dist}(X, \Gamma)\|_{L^p(\mathbb{P})} = \left\| \min_{1 \leq i \leq N} |X - x_i| \right\|_{L^p(\mathbb{P})} \quad (1.1)$$

$$= \left\| \min_{1 \leq i \leq N} |\xi - x_i| \right\|_{L^p(\mu)} = \left(\int_{\mathbb{R}^d} \min_{1 \leq i \leq N} |\xi - x_i|^p \mu(d\xi) \right)^{\frac{1}{p}}. \quad (1.2)$$

Note that, from a computational point of view, the computation of $\pi_\Gamma(\xi)$ is very demanding when the size N is large since it amounts to a nearest neighbour search. We will come back to that point further on in Section 3 devoted to numerical aspects of (optimal) quantization grid computation.

Question 2 *How to choose Γ in order to improve the transmission?*

The underlying idea is to try selecting (or designing) a grid Γ with size at most N which optimally “fits” to the distribution μ of X with in mind an approximation in the L^p -sense when $X \in L^p_{\mathbb{R}^d}(\mathbb{P})$. To this end, we introduce the *L^p -distortion function*.

Definition 1.1. Let $p \in (0, +\infty)$ and $X \in L^p_{\mathbb{R}^d}(\mathbb{P})$. The \mathbb{R}_+ -valued function $\mathcal{G}_{p,N}$ defined on $(\mathbb{R}^d)^N$ by

$$\mathcal{G}_{p,N} : (x_1, \dots, x_N) \mapsto \mathbb{E} \left(\min_{1 \leq i \leq N} |X - x_i|^p \right) = e_p(\Gamma, X)^p = \|\text{dist}(X, \Gamma)\|_{L^p(\mathbb{P})}^p.$$

is called the *L^p -distortion function*.

It is clear that, if we define the optimal L^p -mean quantization problem by

$$e_{p,N}(X) = \inf_{\Gamma, \text{card}(\Gamma) \leq N} e_p(\Gamma, X) \quad (1.3)$$

where $\text{card}(\Gamma)$ denotes the cardinality of the grid $\Gamma \subset \mathbb{R}^d$, then

$$e_{p,N}(X) = \inf_{(x_1, \dots, x_N) \in (\mathbb{R}^d)^N} (\mathcal{G}_{p,N}(x_1, \dots, x_N))^{\frac{1}{p}}.$$

Note that, in fact, $e_{p,N}(X)$ only depends on the distribution μ of X . So we will occasionally write $e_{p,N}(\mu)$ instead of $e_{p,N}(X)$. This follows from the easy remark that a grid Γ with less than N elements can be represented by always an N -tuple in which each element of the grid appears as a component at least once.

Proposition 1.1. *Let $p \in (0, +\infty)$. Assume that $X \in L^p_{\mathbb{R}^d}(\mathbb{P})$ i.e. $\int_{\mathbb{R}^d} |\xi|^p \mu(d\xi) < +\infty$ so that the distortion function $\mathcal{G}_{p,N}$ is finite everywhere on $(\mathbb{R}^d)^N$.*

- (a) *The distortion function $\mathcal{G}_{p,N}$ attains a minimum at an N -tuple $x^{(N,p)} = (x_1^{(N,p)}, \dots, x_N^{(N,p)})$.*
- (b) *If $\text{card}(\text{supp}(\mu)) \geq N$, then the corresponding grid $\Gamma^{(N,p)} = \{x_1^{(N,p)}, \dots, x_N^{(N,p)}\}$ has full size N and for every Voronoi partition $(C_i(\Gamma^{(N,p)}))_{1 \leq i \leq N}$ of \mathbb{R}^d induced by $\Gamma^{(N,p)}$, $\mathbb{P}(X \in C_i(\Gamma^{(N,p)})) > 0$.*
- (c) *The sequence $N \mapsto e_{p,N}(X)$ (strictly) decreases as long as $N \leq |\text{supp}(\mu)|$ and*

$$\lim_N e_{p,N}(X) = 0.$$

The proof of this proposition is postponed to Section 2.1. The grid $\Gamma^{(N,p)}$, the corresponding N -tuples $x^{(N,p)}$ (there are $N!$ N -tuples obtained by permutations of the components if the grid has full size N) as well as the (Borel) nearest neighbour projections $q_{\Gamma^{(N,p)}}$ are all called *L^p -optimal quantizers*.

Of course a crucial question in view of possible applications is to compute such *L^p -optimal quantizers* at level N , especially in higher dimension.

When $d = 1$ and $\mu = U([0, 1])$, then, for any $p \in (0, +\infty)$, the *mid-point grid* $\Gamma^{(N,p)} = \{\frac{2i-1}{2N}, i = 1, \dots, N\}$ is the unique optimal L^p -quantizer at level N . The attached weights are all equal to $w_i^{(p,N)} = \frac{1}{N}$, $i = 1, \dots, N$ and the resulting optimal L^p -quantization error is given for every $N \geq 1$ by

$$e_{p,N}(U([0, 1])) = \frac{1}{2(1+p)^{1/p}N}. \quad (1.4)$$

More generally the question of the *rate of decay* of $e_{p,N}(X)$ is the central question of optimal vector quantization theory. It will be investigated further on in Section 2.3.

1.2 Application to signal transmission

As mentioned in the introduction, this application of (optimal) quantization goes back to the very origin of quantization theory in the 1950's. Imagine one has access to an L^p -optimal quantization grid, say for $p = 2$ (quadratic case in an Euclidean setting). For convenience, we assume that $\Gamma = \{x_1, \dots, x_N\}$ is a grid (possibly optimal) such that $\mathbb{P}(X \in \bigcup_{1 \leq i \leq N} \partial C_i(\Gamma)) = \mu(\bigcup_{1 \leq i \leq N} \partial C_i(\Gamma)) = 0$ e.g. because μ assigns no mass to hyperplanes.

What is the information “contained” in $\hat{X}^\Gamma = \pi_\Gamma(X)$? Or equivalently, in probabilistic terms, what are the *characteristics* of the distribution of \hat{X}^Γ ?

1. Its state space $\Gamma = \{x_1, \dots, x_N\}$,
2. Its “companion” weights $w_i = w_i^{(\Gamma)} = \mathbb{P}(\hat{X}^\Gamma = x_i) = \mathbb{P}(X \in C_i(\Gamma)) = \mu(C_i(\Gamma))$, $i = 1, \dots, N$.

If X is a random vector with a known simulatable distribution μ , one can pre-compute these weights w_i with an arbitrary accuracy by a large scale Monte Carlo simulation since, owing to the Strong Law of large Numbers,

$$w_i = \mathbb{P}\text{-a.s.} \lim_{M \rightarrow +\infty} \frac{\left| \{1 \leq m \leq M : |X^m - x_i| < \min_{j \neq i} |X^m - x_j|\} \right|}{M}, \quad i = 1, \dots, M,$$

where $(X^m)_{m \geq 1}$ is a sequence of i.i.d. random vectors with distribution μ . In case of a not too large dataset (which is more common for signal transmission) one compute the weights w_i by assigning its Voronoi class to each data (when the dataset is too large a statistical approach is adopted).

Coding the (quantized) signal Let $\Gamma = \{x_1, \dots, x_N\} \subset \mathbb{R}^d$ be a grid (possibly non-optimal at this stage) of size N and let $\mathcal{P}(\Gamma)$ be the set of distributions whose support is exactly Γ . In order to transmit a Γ -valued signal from a sender A to a receiver B , A will transmit a *codeword* $C_i = C(x_i)$ *representative* of x_i instead of (an accurate enough approximation of) x_i itself. For simplicity we will assume that the coding function C maps Γ into the set $\{0, 1\}^{(\mathbb{N})}$ of finite $\{0, 1\}$ -valued sequences (this means that we adopt a *dyadic* coding procedures). The set $\{0, 1\}$ is called a *2-alphabet*¹. Our first request on the function C is *identifiability* i.e. that B can always recover x_i from C_i or equivalently that C is injective. To design the codewords $(C_i)_{1 \leq i \leq N}$, one aims at minimizing the *mean transmission cost* κ , also known as the *mean length* of the message. This is in fact very old problem which goes back to the origins of Information Theory introduced by Claude Shannon in [69].

Let us focus for a while on this coding problem. The mean transmission cost $\kappa(N)$ for a grid of size N is clearly defined by

$$\kappa(N) = \sum_{i=1}^N w_i \times \text{length}(C_i).$$

A first (not so naive) idea is to re-index the points x_i by a permutation σ so that $i \mapsto w_{\sigma(i)}$ is non-increasing. Without loss of generality, we may assume from now on that σ is identity (though, for one-dimensional distributions, it is not consistent in general with the natural order of the points x_i on the real line). Then, it is intuitive (but in fact not mandatory) to devise the coding function C so that $i \mapsto \text{length}(C_i)$ is non-decreasing since, doing so, the more often a code is transmitted, the shorter it will be. In case of equality (like for the uniform distribution over Γ conventions have to be made).

A naive approach is to simply code x_i through the regular dyadic expression \bar{i}^2 of i which needs $1 + \lfloor \log_2 i \rfloor$ digits (where $\lfloor \xi \rfloor$ denotes the lower integer part of $\xi \in \mathbb{R}$). This yields

$$\kappa(N) = \sum_{i=1}^N w_i (1 + \lfloor \log_2 i \rfloor) = 1 + \sum_{i=1}^N w_i \lfloor \log_2 i \rfloor \leq 1 + \lfloor \log_2 N \rfloor.$$

The transmission relies on the fact that both A and B share the *codebook* i.e. a one-to-one correspondence

$$x_i \longleftrightarrow \bar{i}^2. \quad (1.5)$$

▷ *A toy example.* Imagine that, to transmit a uniformly distributed signal over the unit interval $[0, 1]$, we first optimally quantize it using the mid-point grid $\Gamma^{(N)} = \left\{ \frac{2i-1}{2N}, i = 1, \dots, N \right\}$. This is

¹More generally, if C is $\mathcal{X}^{(\mathbb{N})}$ -valued, then \mathcal{X} is called a *card*(\mathcal{X})-alphabet.

equivalent to transmit a uniformly distributed signal over $\{1, \dots, N\}$ thanks to the codebook so that, as far as transmission is concerned, the grid $\Gamma^{(N)}$ itself plays no role. The resulting mean transmission cost $\kappa(N)$ is equal to

$$\kappa(N) = 1 + \frac{1}{N} \sum_{i=1}^N \lfloor \log_2 i \rfloor \sim \log_2(N/e) \quad \text{as } N \rightarrow +\infty.$$

To be more precise, once noted that the *dyadic entropy* $H_2(\hat{\mu}_N^{Unif})$ of the uniform distribution $\hat{\mu}_N^{Unif}$ over $\{1, \dots, N\}$ (or equivalently on $\Gamma^{(N)}$) is equal to $\log_2 N$, we can show that

$$c_- = \liminf_N \left(\kappa(N) - H_2(\hat{\mu}_N^{Unif}) \right) \leq \limsup_N \left(\kappa(N) - H_2(\hat{\mu}_N^{Unif}) \right) = c_+$$

where $c_- \approx -2,8792$ and $c_+ \approx -0.9139$.

▷ *Instantaneous coding.* However, this approach is definitely too naive. In practice, A does not send *one* isolated codeword but a sequence of codewords. Such a coding is not satisfactory, mainly because it is not *self-punctuated*. To be decodable, an extra symbol (space, comma, etc) is needed to isolate the codewords. Doing so amounts to adding one symbol to the alphabet (with a special status since it cannot be repeated, like the large space in Morse coding). But this lowers the global performance of the coding system since it induces *de facto* switching from a 2-alphabet to a 3-alphabet coding function C , the third symbol having moreover a lower status of “under-symbol”. To overcome this problem, the idea, again due to Shannon in his seminal 1948 paper [69], is to devise *self-punctuated codes*. This relies on two conditions. First we ask the coding process to be *uniquely decodable* in the sense that the *concatenation* of codewords $C(x_1) \cdots C(x_N)$ uniquely characterizes the concatenation $x_1 \cdots x_N$. The additional condition which defines an *instantaneous coding system* is that a codeword can never be the prefix of another or, equivalently, no codeword can be obtained as the concatenation of another codeword and further symbols of the alphabet (here 0 and 1 digits). One easily checks that an instantaneous coding procedure is always self-punctuated.

Unfortunately, it is also straightforward to check that the naive dyadic coding (1.5) formerly mentioned which consists in writing in base 2 every index i is *not* an instantaneous coding system since, *e.g.*, $2^2 = 10$ and $5^2 = 101$.

Let us illustrate on a simple example how an instantaneous coding procedure look. We consider the following coding procedure of the set of indices $\{1, 2, 3, 4\}$:

$$C(1) = 0, C(2) = 10, C(3) = 110, C(4) = 111.$$

Such a code is uniquely decodable (*e.g.* 0110111100110 can be uniquely decoded as the string 134213). Furthermore it is clearly instantaneous (thus 010111110010 can be parsed on line as 0, 10, 111, 110, 10 *i.e.* the string 12432).

If we consider the uniform distribution $\hat{\mu}_4^{Unif}$ over $\{1, 2, 3, 4\}$, the resulting mean cost transmission (or mean length) is equal to $\kappa(\hat{\mu}_4^{Unif}) := \frac{1}{4}(1 + 2 + 3 + 3) = \frac{9}{4}$ whereas the naive dyadic coding of the indices seemingly yields $\frac{8}{4} = 2$. However, the *implementable* version of this naive dyadic coding (1.5), *i.e.* including an extra symbol like “,”, has a mean length equal to $3 > \frac{9}{4}$. This can be up to 30% more symbol consuming than the above instantaneous code!

Now, let us consider a *general distribution* $\hat{\mu}_N$ (exactly) supported by $\{1, \dots, N\}$ (or equivalently by a grid Γ_N of size N) and *a priori not uniform*. Assume we have access to the weights $w_i = \hat{\mu}_N(\{i\})$ (*i.e.* to $\hat{\mu}$ itself). We define the dyadic entropy $H_2(\hat{\mu})$ of $\hat{\mu}$ by

$$H_2(\hat{\mu}) = - \sum_{i=1}^N w_i \log_2 w_i.$$

Then, the following classical theorem from Information Theory holds (see [19], Chapter 5, Theorem 5.3.1 and Section 5.4).

Theorem 1.1. *For any instantaneous dyadic coding procedure $C : \{1, \dots, N\} \rightarrow \{0, 1\}^{(\mathbb{N})}$ of the distribution $\hat{\mu}$, its mean transmission cost $\kappa_{\hat{\mu}}(N)$ satisfies*

$$\kappa(\hat{\mu}_N) \geq H_2(\hat{\mu}_N). \quad (1.6)$$

Furthermore, there exists (at least) one instantaneous coding procedure such that

$$\kappa_{\hat{\mu}}(N) < H_2(\hat{\mu}_N) + 1. \quad (1.7)$$

For a proof of this result based on *Kraft's inequality*, which is too far from the scope of this paper, we refer to [19]. Furthermore when a sequence $(Y_n)_{n \geq 0}$ of $\{1, \dots, N\}$ -valued signals to be transmitted is stationary with marginal (invariant) distribution $\hat{\mu}_N$ and ergodic, it is possible by aggregating n of them to show (with obvious notations, see again [19]) that

$$\kappa(Y_1, \dots, Y_n) \rightarrow H_2(\hat{\mu}) \quad \text{as } n \rightarrow +\infty. \quad (1.8)$$

EXAMPLES: (a) *The Huffman code:* It was the first optimal instantaneous code – devised in Huffman's PhD thesis (see also [36]). Its length sequence $(\ell_i^*)_{1 \leq i \leq N}$ can be obtained as the solution to the integer optimization problem (ℓ_i denotes the length of a code C_i):

$$\ell^* = \operatorname{argmin}_{\sum 2^{-\ell_i} \leq 1} \sum w_i \ell_i$$

so that $H_2(\hat{\mu}_N) \leq \kappa_{Huf}(\hat{\mu}_N) = \sum w_i \ell_i^* \leq H_2(\hat{\mu}_N) + 1$. For an explicit construction of the Huffman code (and not only of its length sequence!), we refer again to [19], Sections 5.6 & 5. Let us simply mention that the codes are obtained by the concatenation of labels given to the edges (1 for “right” edges, 0 for “left edges” starting from the root) of successive trees built from the (non-increasing) monotony of the weights w_i . The successive trees are obtained by summing up the lower probabilities (starting from $\tilde{w}_{N-1} := w_N + w_{N-1}$), with appropriate conventions in case of equality like with uniform distributions).

(b) *The Shannon coding* (see exercise 5.28 in [19]): Still assume that the weights of the distribution $\hat{\mu}_N$ satisfy $0 < w_N \leq \dots \leq w_1 < 1$. Let $F^{\hat{\mu}_N}$ denote the *strict*-cumulative distribution function of $\hat{\mu}_N$ defined by

$$F_i^{\hat{\mu}_N} = \sum_{j < i} w_j.$$

Set

$$\ell_i = \lceil -\log_2 w_i \rceil \quad \text{and} \quad C_i = \lfloor 2^{\ell_i} F_i^{\hat{\mu}_N} \rfloor, \quad i = 1, \dots, N,$$

where $\lceil \xi \rceil$ denotes the upper integer part of the real number ξ . Elementary computations show that Shannon's code is instantaneous and that its mean transmission cost $\kappa_{Shan} S(\hat{\mu}_N)$ also satisfies

$$H_2(\hat{\mu}_N) \leq \kappa_{Shan} S(\hat{\mu}_N) < H_2(\hat{\mu}_N) + 1.$$

Global error induced by the transmission of a quantized signal Let us bring back quantization into the game by considering a continuous signal which needs to be quantized in order to reduce its transmission cost. Let us briefly compare from a quantitative viewpoint two modes of transmission for a signal.

▷ *Direct transmission.* Let $(X_t)_{t \geq 0}$ be a stochastic stationary signal with marginal distribution μ defined on a probability space $(\Omega, \mathcal{A}, \mathbb{P})$ and $\Gamma = \{x_1, \dots, x_N\}$. To transmit the Γ -quantization \hat{X}^Γ of the random signal $X = X_{t_0}$ at time t_0 , the resulting quadratic mean quantization error is equal to

$$\|X - \hat{X}^\Gamma\|_{L^2(\mathbb{P})} + 2^{-r} = e_2(\Gamma, \mu) + 2^{-r}$$

where 2^{-r} is the dyadic transmission accuracy of any of the elementary quantizers x_i . In fact this corresponds to a fixed transmission cost $\kappa = r + 1$ *i.e. number of dyadic digits* used to transmit these values. Common values for r lie between 10 and 20 (having in mind that $2^{-10} = \frac{1}{1024} \approx 10^{-3}$).

▷ *Signal transmission using the codebook.* If the receiver B uses the codebook $(C_i \longleftrightarrow x_i)_{1 \leq i \leq N}$ for the decoding phase ⁽²⁾, the resulting mean quadratic transmission error will be equal to

$$\|X - \hat{X}^\Gamma\|_{L^2(\mathbb{P})} = e_2(\Gamma, \mu)$$

whereas the mean unitary transmission cost is $\kappa_{\hat{\mu}}(N)$ where $\hat{\mu}$ is the distribution of the quantized signal \hat{X}^Γ . In this second case, there is a connection between the transmission error and the transmission cost that will be made more precise in Section 2.3 when the grid Γ is L^2 -optimal at level N for μ .

However, in the very simple case of the uniform distribution $U([0, 1])$ over the unit interval, we can establish a direct relation between quadratic mean transition error and mean transmission cost κ *when both the quantization and the instantaneous coding are optimal*. The optimal quadratic quantization of $U([0, 1])$ is the uniform distribution $\hat{\mu}_N^{Unif}$ over the N -mid-point whose dyadic entropy is exactly $H_2(\hat{\mu}_N^{Unif}) = \log_2 N$. Plugging this equality in (1.7) yields $\kappa_{\hat{\mu}_N} \leq \log_2(N)$. In turn, plugging this inequality in the quantization error bound (1.4) yields that *the lowest achievable mean transmission error*, for a prescribed mean transmission cost κ , approximately satisfies

$$\frac{2^{-(\kappa+1)}}{\sqrt{3}} \leq L^2\text{-Mean transmission error}(\kappa) \leq \frac{2^{-\kappa}}{\sqrt{3}}.$$

A less sharp (reverse) formulation is

$$-\log_2(\text{Transmission error}(\kappa)) \sim \kappa \quad \text{as } \kappa \rightarrow +\infty.$$

This result appears as the most elementary version of a seminal result from Information Theory: Shannon's source coding theorem (in one dimension). Its extension to more general distributions μ on \mathbb{R}^d will be possible, once established the sharp convergence rate of the L^2 -optimal mean quantization error of general distributions on \mathbb{R}^d stated in Section 2.3 (Zador's Theorem).

We enhanced in the above lines a static random signal presentation but the adaptation to a stationary process or a quasi-periodic (as defined above in terms of weak convergence of its time empirical measure) signal is straightforward (in particular for stationary ergodic signal one may take advantage of the improvement provide by (1.8), using n -aggregates of the signal, to reduce the range of the two-sided inequality (1.6)-(1.7) in Theorem 1.1.

1.3 What else is quantization for?

1.3.1 Data mining, clustering, automatic classification

Let $(\xi_k)_{1 \leq k \leq n}$ be an \mathbb{R}^d -valued dataset and μ the uniform distribution over this dataset – the empirical measure of the dataset – defined by

$$\mu = \frac{1}{n} \sum_{k=1}^n \delta_{\xi_k}$$

²The sender A only needs a codebook to discriminate the elementary quantizers x_i *i.e.* a codebook where all x_i are known with a fixed length ℓ_1 (dyadic) bits in its dyadic representation. The receiver B may need arbitrary accurate values for the elementary quantizers x_i in his/her codebook in order to reconstruct *a posteriori* the signal.

where δ_a denotes the Dirac mass at $a \in \mathbb{R}^d$. In such a framework, n is usually large, say 10^6 or more, and optimal quantization can be viewed as a model for clustering *i.e.* the design of a set of N *prototypes* of the dataset, with $N \ll n$, obtained as a solution to the mean quadratic (or more generally L^p -) optimal quantization at level $N \geq 1$ of the distribution μ ($p \in (0, +\infty)$ being fixed). This reads as the (L^p -)minimization problem

$$\min_{(x_1, \dots, x_N) \in (\mathbb{R}^d)^N} \frac{1}{n} \sum_{k=1}^n \min_{1 \leq i \leq N} |\xi_k - x_i|^p.$$

The existence of such an optimal N -quantization grid $\Gamma^{(N,p)}$ of prototypes follows from the above Proposition 1.1. Such a distribution does assign mass to hyperplanes and in particular to the boundaries of polyhedral Voronoi cells. However, owing to Theorems 4.1 and 4.2 in [32] (p.38), we know that the boundaries of the Voronoi cells induced by an optimal grid $\Gamma^{(N,p)}$ are always μ -negligible.

Once an optimized grid of N prototypes has been computed (see Section 3 devoted to the algorithmic aspects), it can be used to produce an automatic classification of the dataset by making up “clusters” of points of the dataset following the nearest neighbour rule among the prototypes. Formulated equivalently, one defines the N clusters as the “trace” of the dataset on the Voronoi cells $C_i(\Gamma^{(N)})$, $i = 1, \dots, N$.

From a mathematical point of view, investigations on this topic are carried out by replacing the deterministic dataset $(\xi_k)_{1 \leq k \leq n}$ by a sequence of i.i.d. random vectors $(X_k)_{k \geq 0}$ defined on a probability space $(\Omega, \mathcal{A}, \mathbb{P})$ with distribution μ . The quantities of interest become, in short, the sequence of optimization problems induced by the random empirical measures $\mu_n(\omega, d\xi) = \frac{1}{n} \sum_{k=1}^n \delta_{X_k(\omega)}(d\xi)$, $\omega \in \Omega$. This has given rise to a huge literature in Statistics and has known a kind of renewal with the emergence of clustering methods in the “Big Data” world, see [10]. We consider, for every $\omega \in \Omega$, the optimization problem

$$\min_{(\mathbb{R}^d)^N} \left[\frac{1}{n} \sum_{k=1}^n \min_{1 \leq i \leq N} |X_k(\omega) - x_i|^p = \int_{\mathbb{R}^d} \min_{1 \leq i \leq N} |\xi - x_i|^p \mu_n(\omega, d\xi) \right]. \quad (1.9)$$

The main connection with optimal quantization is the following: Assume that $\mu(B(0; 1)) = 1$. For every $\omega \in \Omega$, there exists (at least) an optimal N -tuple $x^{(N)}(\omega, n)$ for the above problem which satisfies

$$\mathbb{E} \left(e_2(x^{(N)}(\omega, n), \mu) \right) - e_{2,N}(\mu) \leq C \min \left(\sqrt{\frac{Nd}{n}}, \sqrt{\frac{d N^{1-\frac{2}{d}} \log n}{n}} \right)$$

where $C > 0$ is a positive universal real constant.

1.3.2 From Numerical integration (I) ...

Another way to take advantage of optimal quantization emerged in the 1990's (see [53]). As we know that for a sequence $(\Gamma^{(N,p)})_{N \geq 1}$ of L^p -optimal grids of size N with $N \rightarrow +\infty$ we have

$$\|X - \hat{X}^{\Gamma^{N,p}}\|_{L^p(\mathbb{P})} = e_{p,N}(X) \rightarrow 0$$

i.e. $\hat{X}^{\Gamma^{N,p}} \rightarrow X$ as $N \rightarrow +\infty$ in L^p (hence in distribution). It can be shown (see [21]) that, in fact, this convergence also holds in an *a.s.* sense although we will make little use of this feature in what follows. In particular, if a function $F : \mathbb{R}^d \rightarrow \mathbb{R}$ is bounded and continuous, then $\mathbb{E} F(\hat{X}^{\Gamma^{N,p}}) \rightarrow \mathbb{E} F(X)$ as

$N \rightarrow +\infty$. On the other hand, using the characteristics $(x_i^{(N)}, w_i^{(N)})_{1 \leq i \leq N}$ of the distribution of $\widehat{X}^{\Gamma^{N,p}}$, we derive a very simple weighted *cubature* formula

$$\mathbb{E} F(\widehat{X}^{\Gamma^{N,p}}) = \sum_{i=1}^N w_i^{(N)} F(x_i^{(N)}). \quad (1.10)$$

When F has more regularity (and possibly not bounded), we can easily establish precise error bound for this quantization based cubature formula.

First order quantization based cubature formula. More generally, we consider a function $F : \mathbb{R}^d \rightarrow \mathbb{R}$ which is locally α -Hölder continuous in the sense that there exists $\alpha \in (0, 1]$, $\beta \geq 0$, and a real constant $[F]_{\alpha,\beta}$ such that

$$\forall x, y \in \mathbb{R}^d, \quad |F(x) - F(y)| \leq [F]_{\alpha,\beta} |x - y|^\alpha (1 + |x|^\beta + |y|^\beta).$$

Then, for every conjugate Hölder exponents $(p, q) \in [1, +\infty]$,

$$\begin{aligned} |\mathbb{E} F(X) - \mathbb{E} F(\widehat{X}^\Gamma)| &\leq [F]_{\alpha,\beta} \mathbb{E} \left(|X - \widehat{X}^\Gamma|^\alpha (1 + |X|^\beta + |\widehat{X}^\Gamma|^\beta) \right) \\ &\leq [F]_{\alpha,\beta,loc} \|X - \widehat{X}^\Gamma\|_{L^{\alpha p}(\mathbb{P})}^\alpha \left(1 + \|X\|_{L^{\beta q}(\mathbb{P})}^\beta + \|\widehat{X}^\Gamma\|_{L^{\beta q}(\mathbb{P})}^\beta \right). \end{aligned}$$

In particular, if $p = \frac{1}{\alpha}$, one gets

$$|\mathbb{E} F(X) - \mathbb{E} F(\widehat{X}^\Gamma)| \leq [F]_{\alpha,\beta} \|X - \widehat{X}^\Gamma\|_1^\alpha \left(1 + \|X\|_{L^{\frac{\beta}{1-\alpha}}(\mathbb{P})}^\beta + \|\widehat{X}^\Gamma\|_{L^{\frac{\beta}{1-\alpha}}(\mathbb{P})}^\beta \right) \quad (1.11)$$

(with the convention $\|\cdot\|_{L^{\frac{\beta}{1-\alpha}}(\mathbb{P})}^0 = 1$). If F is α -Hölder continuous with Lipschitz coefficient $[F]_\alpha = \frac{1}{3}[F]_{1,0}$, then

$$|\mathbb{E} F(X) - \mathbb{E} F(\widehat{X}^\Gamma)| \leq [F]_\alpha \|X - \widehat{X}^\Gamma\|_{L^\alpha(\mathbb{P})}^\alpha. \quad (1.12)$$

From the cubature formula (1.12) and using that bounded Hölder functions characterize the weak convergence of probability measures, we derive the following corollary about L^p -optimal quantizers (by considering $\alpha = p \wedge 1$).

Corollary 1.1. *Let $(\Gamma^{(N)})_{N \geq 1}$ be a sequence of (L^p, μ) -quantizers with $\Gamma^{(N)}$ of size N and such that $e_p(\Gamma^{(N)}, \mu) \rightarrow 0$ as $N \rightarrow +\infty$. Let $\hat{\mu}_N$ denote the distribution of $\widehat{X}^{\Gamma^{(N)}}$. Then*

$$\hat{\mu}_N = \sum_{i=1}^N \mu(C_i(\Gamma^{(N)})) \delta_{x_i^{(N)}} \xrightarrow{(w)} \mu \quad \text{as } N \rightarrow +\infty. \quad (1.13)$$

where $\xrightarrow{(w)}$ denotes the weak convergence of distributions.

1.3.3 ... to Numerical Probability (conditional expectation)

One of the main problem investigated in the past twenty years in Numerical Probability has been the *numerical computation of conditional expectations*, mostly motivated by problems arising in finance for the pricing of derivative products of American style or more generally known as “callable”. It is also a challenging problem for the implementation of numerical schemes for Backward Stochastic Differential Equations (see [2, 3]), Stochastic PDEs (see [31]), for non-linear filtering [54, 66] or

Stochastic Control Problems (see [55, 13, 14]). Further references are valuable in the survey paper [59] devoted to applications of optimal vector quantization to Numerical Probability. The specificity of these problems in the probabilistic world is that, whatever the selected method is to suffer in some way or another, from the *curse of dimensionality*. Optimal quantization trees (introduced in [2]) is one of the numerical methods designed to cope with this problem (with regression and Monte Carlo-Malliavin method, see [44], [27]). The precise connection between vector quantization and conditional expectation computation can be summed up in the proposition below.

We consider a couple of random vectors $(X, Y) : (\Omega, \mathcal{A}, \mathbb{P}) \rightarrow \mathbb{R}^d \times \mathbb{R}^q$ and the regular version Q of the conditional distribution operator of X given Y , defined on every bounded or non-negative Borel function $f : \mathbb{R}^d \rightarrow \mathbb{R}$, by

$$Qf(y) = \mathbb{E}(f(X) | Y = y).$$

Then, Qf is a Borel function on \mathbb{R}^d . We define the Lipschitz ratio of a function $f : \mathbb{R}^d \rightarrow \mathbb{R}$ by $[f]_{\text{Lip}} = \sup_{x \neq y} \frac{|f(y) - f(x)|}{|x - y|} \leq +\infty$. We make the following *Lipschitz continuity propagation* assumption on Q : there exists $[Q]_{\text{Lip}} \in \mathbb{R}_+$ such that

$$\forall f : \mathbb{R}^d \rightarrow \mathbb{R}, \text{ Borel function, } [Qf]_{\text{Lip}} \leq [Q]_{\text{Lip}}[f]_{\text{Lip}}. \quad (1.14)$$

Proposition 1.2. *Assume that the conditional distribution operator Q of X given Y satisfies the above Lipschitz continuity propagation property (1.14). Let $\Gamma_X \subset \mathbb{R}^d$ and $\Gamma_Y \subset \mathbb{R}^q$ be two quantization grids of X and Y respectively.*

(a) Quadratic case. *Assume $X, Y \in L^2(\mathbb{P})$. Let $f : \mathbb{R}^d \rightarrow \mathbb{R}$ be a Lipschitz continuous function and let $g : \mathbb{R}^d \rightarrow \mathbb{R}$ be a Borel function with linear growth. Then*

$$\|\mathbb{E}(f(X) | Y) - \mathbb{E}(g(\hat{X}^{\Gamma_X}) | \hat{Y}^{\Gamma_Y})\|_{L^2(\mathbb{P})}^2 \leq [Qf]_{\text{Lip}}^2 \|Y - \hat{Y}^{\Gamma_Y}\|_{L^2_{\mathbb{R}^q}(\mathbb{P})}^2 + \|f(X) - g(\hat{X}^{\Gamma_X})\|_{L^2(\mathbb{P})}^2$$

so that if $g = f$,

$$\|\mathbb{E}(f(X) | Y) - \mathbb{E}(f(\hat{X}^{\Gamma_X}) | \hat{Y}^{\Gamma_Y})\|_{L^2_{\mathbb{R}^q}(\mathbb{P})}^2 \leq [Qf]_{\text{Lip}}^2 \|Y - \hat{Y}^{\Gamma_Y}\|_{L^2(\mathbb{P})}^2 + [f]_{\text{Lip}}^2 \|X - \hat{X}^{\Gamma_X}\|_{L^2(\mathbb{P})}^2.$$

(b) L^p -case. *Assume $X, Y \in L^p(\mathbb{P})$, $p \in [1, +\infty)$ and let f and g be like in (a). Then*

$$\|\mathbb{E}(f(X) | Y) - \mathbb{E}(g(\hat{X}^{\Gamma_X}) | \hat{Y}^{\Gamma_Y})\|_{L^p_{\mathbb{R}^q}(\mathbb{P})} \leq (2 - \delta_{p,2})[Qf]_{\text{Lip}} \|Y - \hat{Y}^{\Gamma_Y}\|_{L^p(\mathbb{P})} + \|f(X) - g(\hat{X}^{\Gamma_X})\|_{L^p(\mathbb{P})}$$

where $\delta_{p,p'}$ denotes the Kronecker symbol. In particular, if $g = f$, one has

$$\|\mathbb{E}(f(X) | Y) - \mathbb{E}(f(\hat{X}^{\Gamma_X}) | \hat{Y}^{\Gamma_Y})\|_{L^p(\mathbb{P})} \leq (2 - \delta_{p,2})[Qf]_{\text{Lip}} \|Y - \hat{Y}^{\Gamma_Y}\|_{L^p_{\mathbb{R}^q}(\mathbb{P})} + [f]_{\text{Lip}} \|X - \hat{X}^{\Gamma_X}\|_{L^p(\mathbb{P})}.$$

Proof. (a) We decompose $\mathbb{E}(f(X) | Y) - \mathbb{E}(f(\hat{X}^{\Gamma_X}) | \hat{Y}^{\Gamma_Y})$ into two $(L^2(\mathbb{P})$ -orthogonal) terms

$$\begin{aligned} \mathbb{E}(f(X) | Y) - \mathbb{E}(f(\hat{X}^{\Gamma_X}) | \hat{Y}^{\Gamma_Y}) &= \underbrace{\left(\mathbb{E}(f(X) | Y) - \mathbb{E}(\mathbb{E}(f(X) | Y) | \hat{Y}^{\Gamma_Y}) \right)}_{(1)} \\ &\quad + \underbrace{\left(\mathbb{E}(\mathbb{E}(f(X) | Y) | \hat{Y}^{\Gamma_Y}) - \mathbb{E}(g(\hat{X}^{\Gamma_X}) | \hat{Y}^{\Gamma_Y}) \right)}_{(2)}. \end{aligned}$$

To check the announced $L^p(\mathbb{P})$ -orthogonality, we note that (2) is $\sigma(\hat{Y}^{\Gamma_Y})$ -measurable; hence, the characterization of conditional expectation given \hat{Y}^{Γ_Y} implies $\mathbb{E}(1) \times (2) = 0$. On the other hand, the

very definition of conditional expectation given \hat{Y}^{Γ_Y} as the best approximation in $L^2_{\mathbb{R}^q}(\mathbb{P})$ by a square integrable $\sigma(\hat{Y}^{\Gamma_Y})$ -measurable random vector implies in turn

$$\begin{aligned}\mathbb{E}(1)^2 &= \mathbb{E}(Qf(Y) - \mathbb{E}(Qf(Y) | \hat{Y}^{\Gamma_Y}))^2 \leq \mathbb{E}(Qf(Y) - Qf(\hat{Y}^{\Gamma_Y}))^2 \\ &\leq [Qf]_{\text{Lip}}^2 \|Y - \hat{Y}^{\Gamma_Y}\|_{L^2(\mathbb{P})}^2.\end{aligned}$$

On the other hand, using that \hat{Y}^{Γ_Y} is $\sigma(Y)$ -measurable, we first derive from the chain rule for conditional expectation that

$$(2) = \mathbb{E}(f(X) | \hat{Y}^{\Gamma_Y}) - \mathbb{E}(g(\hat{X}^{\Gamma_X}) | \hat{Y}^{\Gamma_Y}) = \mathbb{E}(f(X) - g(\hat{X}^{\Gamma_X}) | \hat{Y}^{\Gamma_Y}).$$

Using now that conditional expectation is an L^2 -contraction, we deduce that

$$\mathbb{E}(2)^2 \leq \|f(X) - g(\hat{X}^{\Gamma_X})\|_{L^2(\mathbb{P})}^2 \leq \|f(X) - g(\hat{X}^{\Gamma_X})\|_{L^2_{\mathbb{R}^q}(\mathbb{P})}^2.$$

When $g = f$, the conclusion is straightforward.

(b) We start from the classical Minkowski Inequality

$$\begin{aligned}\|\mathbb{E}(f(X) | Y) - \mathbb{E}(g(\hat{X}^{\Gamma_X}) | \hat{Y}^{\Gamma_Y})\|_{L^p(\mathbb{P})} &\leq \|Qf(Y) - \mathbb{E}(Qf(Y) | \hat{Y}^{\Gamma_Y})\|_{L^p(\mathbb{P})} \\ &\quad + \|\mathbb{E}(f(X) | \hat{Y}^{\Gamma_Y}) - \mathbb{E}(g(\hat{X}^{\Gamma_X}) | \hat{Y}^{\Gamma_Y})\|_{L^p(\mathbb{P})}\end{aligned}$$

where we used like in (a) that $\mathbb{E}(Qf(Y) | \hat{Y}^{\Gamma_Y}) = \mathbb{E}(f(Y) | \hat{Y}^{\Gamma_Y})$. Now, still owing to Minkowski's Inequality

$$\|Qf(Y) - \mathbb{E}(Qf(Y) | \hat{Y}^{\Gamma_Y})\|_{L^p(\mathbb{P})} \leq \|Qf(Y) - Qf(\hat{Y}^{\Gamma_Y})\|_{L^p(\mathbb{P})} + \|\mathbb{E}(Qf(\hat{Y}^{\Gamma_Y}) - Qf(Y) | \hat{Y}^{\Gamma_Y})\|_{L^p(\mathbb{P})}$$

so that

$$\begin{aligned}\|Qf(Y) - \mathbb{E}(Qf(Y) | \hat{Y}^{\Gamma_Y})\|_{L^p(\mathbb{P})} &\leq 2\|Qf(Y) - Qf(\hat{Y}^{\Gamma_Y})\|_{L^p(\mathbb{P})} \\ &\leq 2[Qf]_{\text{Lip}} \|Y - \hat{Y}^{\Gamma_Y}\|_{L^p_{\mathbb{R}^q}(\mathbb{P})}.\end{aligned}$$

Note that when $p = 2$ the above coefficient 2 can be cancelled using again, like in (a), that conditional expectation given \hat{Y}^{Γ_Y} is the best *approximator* in $L^2(\mathbb{P})$ by $\sigma(\hat{Y}^{\Gamma_Y})$ -measurable square integrable random vectors. On the other hand,

$$\|\mathbb{E}(f(X) | \hat{Y}^{\Gamma_Y}) - \mathbb{E}(g(\hat{X}^{\Gamma_X}) | \hat{Y}^{\Gamma_Y})\|_{L^p(\mathbb{P})} \leq \|f(X) - g(\hat{X}^{\Gamma_X})\|_{L^p(\mathbb{P})}.$$

The case $g = f$ follows immediately. This completes the proof. \square

To conclude this section, we make the connection between these cubature formulas and the L^1 -Wasserstein distance \mathcal{W}_1 defined by

$$\mathcal{W}_1(\mu, \nu) = \inf \left\{ \mathbb{E}_{\mathbb{P}} |X - Y|, X, Y : (\Omega, \mathcal{A}, \mathbb{P}) \rightarrow \mathbb{R}^d, X \stackrel{d}{=} \mu, Y \stackrel{d}{=} \nu \right\}$$

where $\stackrel{d}{=}$ denotes the identity in distribution.

Proposition 1.3. Let $X \in L^p_{\mathbb{R}^d}(\mathbb{P})$, $p \in (0, 1]$, with distribution μ and let $\Gamma = \{x_1, \dots, x_N\}$.

(a) For every $p \in (0, 1]$, $\|X - \hat{X}^\Gamma\|_{L^p(\mathbb{P})}^p = \sup_{[F]_p \leq 1} |\mathbb{E}F(X) - \mathbb{E}F(\hat{X}^\Gamma)|$ where $[F]_p = \sup_{x \neq y} \frac{|F(x) - F(y)|}{|x - y|^p}$

denotes the p -Hölder coefficient of the function $F : \mathbb{R}^d \rightarrow \mathbb{R}$.

(b) If \mathcal{P}_N denotes the set of probability measures with a support having at most N points in \mathbb{R}^d , then

$$\mathcal{W}_1(\mu, \mathcal{P}_N) = e_{1,N}(\mu).$$

Proof. (a) The inequality $\sup_{[F]_p \leq 1} |\mathbb{E}F(X) - \mathbb{E}F(\hat{X}^\Gamma)| \leq \|X - \hat{X}^\Gamma\|_{L^p(\mathbb{P})}^p$ is straightforward (set e.g.

$\alpha = p$ and $\beta = 0$ in (1.11) and note $[F]_p = \frac{1}{3}[F]_{p,0}$). The equality follows by noting that the function F_p defined for every $\xi \in \mathbb{R}^d$ by $F_p(\xi) = \min_{1 \leq i \leq N} |\xi - x_i|^p$ is p -Hölder with $[F]_p = 1$.

(b) Let $X : (\Omega, \mathcal{A}, \mathbb{P}) \rightarrow \mathbb{R}^d$ with distribution $\mathbb{P}_X = \mu$. It is clear, as already seen, that if $Y : (\Omega, \mathcal{A}, \mathbb{P}) \rightarrow \mathbb{R}^d$ is such that $\Gamma_Y = Y(\Omega)$ has at most N values then $|X - Y| \geq \text{dist}(X, \Gamma_Y) = |X - \hat{X}^{\Gamma_Y}|$ so that $\|X - \hat{X}^{\Gamma_Y}\|_1 \leq \mathbb{E}|X - Y|$. As a consequence $e_{1,N}(\mu) \leq \mathcal{W}_1(\mu, \mathcal{P}_N)$. Conversely, it follows from the definition of $e_{1,N}(\mu)$ in (1.3) that $e_{1,N}(\mu) \geq \mathcal{W}_1(\mu, \mathcal{P}_N)$ since it is defined as an infimum over *less* random vectors (only those of the form $Y = q(X)$ of X where $q : \mathbb{R}^d \rightarrow \mathbb{R}$ takes at most N values) that the L^1 -Wasserstein distance. This completes the proof. \square

1.4 Application to Numerical Analysis (Automatic meshing)

1.4.1 Representation of the solution of parabolic equation, Feynman-Kac's formula

Let $b : [0, T] \times \mathbb{R}^d \rightarrow \mathbb{R}^d$ and $a : [0, T] \times \mathbb{R}^d \rightarrow \mathbf{S}^+(d, \mathbb{R})$ be two continuous functions with at most linear and quadratic growth in x , uniformly with respect to $t \in [0, T]$, respectively ($\mathbf{S}^+(d, \mathbb{R})$ denotes the set of $d \times d$ symmetric non-negative matrices). Let $f : \mathbb{R}^d \rightarrow \mathbb{R}$ be a Borel function with polynomial growth. We want to solve numerically the following parabolic partial differential equation (PDE), either by a Monte Carlo simulation or by a quadrature formula

$$\frac{\partial u}{\partial t} + Lu = 0, \quad u(T, \cdot) = f \tag{1.15}$$

where, denoting by (\cdot, \cdot) the canonical inner product on \mathbb{R}^d ,

$$Lu = (b|\nabla u) + \frac{1}{2}\text{Tr}(a\nabla^2 u). \tag{1.16}$$

\triangleright Step 1 (*The Feynman-Kac representation formula*). This fundamental connection between diffusion process and (parabolic) PDEs is summed up in the following theorem.

Theorem 1.2 (Feynman-Kac's representation formula). Assume (for simplicity) that the functions b and a are such that the above PDE (1.16) has a unique $\mathcal{C}^{1,2}([0, T] \times \mathbb{R}^d)$ solution u whose gradient $\nabla_x u$ has polynomial growth in x , uniformly in $t \in [0, T]$. Let $\sigma : \mathbb{R}^d \rightarrow \mathcal{M}(d, q)$ ⁽³⁾ such that $a = \sigma\sigma^*$ (where $*$ stands for matrix transposition). Assume that b and σ are continuous on $[0, T] \times \mathbb{R}^d$ and, at least, Lipschitz continuous in x , uniformly in $t \in [0, T]$.

(a) Then the function u admits the following representation as an expectation:

$$\forall x \in \mathbb{R}^d, \forall t \in [0, T], \quad u(t, x) = \mathbb{E} f(X_T^{t,x})$$

³matrices with d rows and q columns.

where $(X_s^{x,t})_{s \in [t,T]}$ denotes the unique solution to the Stochastic Differential Equation (SDE)

$$dX_s^{t,x} = b(s, X_s^{t,x})ds + \sigma(s, X_s^{t,x})dW_s, \quad X_t^{t,x} = x, \quad s \in [t, T], \quad (1.17)$$

(starting from $x \in \mathbb{R}^d$ at time $t \in [0, T]$ and defined on $[t, T]$) where W is a q -dimensional standard Brownian motion defined on a probability space $(\Omega, \mathcal{A}, \mathbb{P})$.

Owing to the Markov property, an alternative formulation is given by

$$\forall t \in [0, T], \quad \mathbb{E}(f(X_T) | X_t) = u(t, X_t) \quad a.s.$$

for any solution $(X_t)_{t \in [0, T]}$ of the above SDE defined over the whole interval $[0, T]$ starting at a finite random vector X_0 independent of W . In particular $u(t, x) = \mathbb{E}(f(X_T) | X_t = x)$ (in the sense that it is a regular version of the conditional expectation as x varies).

(b) Time homogeneous diffusion coefficients: If $b(t, x) = b(x)$ and $\sigma(t, x) = \sigma(x)$ (no dependence of b and σ in t), then the representation can be written

$$\forall x \in \mathbb{R}^d, \quad \forall t \in [0, T], \quad u(t, x) = \mathbb{E} f(X_{T-t}^{0,x}). \quad (1.18)$$

Proof. (a) Itô's formula applied to the function u and the process $(s, X_s^{t,x})_{s \in [t, T]}$ between t and T yields

$$u(T, X_T^{t,x}) = u(t, x) + \underbrace{\int_t^T \left(\frac{\partial u}{\partial t} + Lu \right)(s, X_s^{t,x}) ds}_{=0} + \int_t^T (\nabla_x u(s, X_s^{t,x}) | \sigma(s, X_s^{t,x}) dW_s).$$

The integral in “ ds ” is zero since u satisfies the parabolic PDE (1.15) and one easily establishes that the local martingale null at 0 defined by the Brownian stochastic integral is a true martingale, null at 0, owing to the growth control assumption made on $\nabla_x u$. Then, one gets

$$\mathbb{E} u(T, X_T^{t,x}) = u(t, x).$$

(b) One writes Itô's formula between 0 and $T - t$ to $u(T - t, X_t^{0,x})$ and proceeds as above. \square

Remark. In the time homogeneous case, one can proceed by verification. Under smoothness assumption on b and σ , say \mathcal{C}^2 with bounded existing derivatives and Hölder second order partial derivatives, one shows, using the tangent process of the diffusion, that the function $u(t, x)$ defined by (1.18) is $\mathcal{C}^{1,2}$ in (t, x) . Then, the above claim (b) shows the existence of a solution to the parabolic PDE (1.15).

\triangleright Step 2a (*Monte Carlo simulation*). Assume for the sake of simplicity that we want to compute a numerical approximation of $u(0, x) = \mathbb{E} f(X_T^{0,x})$ i.e. that $t = 0$. At this stage, the idea is to replace the diffusion by its *Euler scheme* with step $\frac{T}{n}$ ($n \geq 1$) starting at x : let $t_k^n = \frac{kT}{n}$, $k = 0, \dots, n$ be the uniform mesh of $[0, T]$ with step $\frac{T}{n}$. It is recursively defined as follows (to alleviate notations, we drop the dependance in 0,x of the Euler scheme):

$$\bar{X}_{t_{k+1}^n}^n = \bar{X}_{t_k^n}^n + \frac{T}{n} b(t_k^n, \bar{X}_{t_k^n}^n) + \sqrt{\frac{T}{n}} \sigma(t_k^n, \bar{X}_{t_k^n}^n) U_{k+1}^{(n)}, \quad k = 0, \dots, n-1, \quad \bar{X}_{t_0^n}^n = \bar{X}_0^n = x$$

where $(U_k^{(n)})_{k=1, \dots, n}$ is an i.i.d. sequence of $\mathcal{N}(0; I_q)$ -distributed random vectors representative of the Brownian increments i.e.

$$W_{t_k^n} - W_{t_{k-1}^n} = \sqrt{\frac{T}{n}} U_k^{(n)}, \quad k = 1, \dots, n.$$

The quantity $\mathbb{E}f(\bar{X}_T^n)$ (have in mind that $T = t_n^n$) is the counterpart of $\mathbb{E}f(X_T)$ for the Euler scheme. Assume that b and σ are Lipschitz continuous in (t, x) . Then, on the one hand,

$$\sup_{n \geq 1} \left\| \max_{0 \leq k \leq n} |\bar{X}_{t_k^n}^n| \right\|_{L^p(\mathbb{P})} + \left\| \max_{t \in [0, T]} |X_t| \right\|_{L^p(\mathbb{P})} \leq \kappa_{p, b, \sigma, T} (1 + |x|) \quad (1.19)$$

and, on the other hand, the discrete time Euler scheme *strongly* converges to X for the sup norm in every $L^p(\mathbb{P})$ at rate $\sqrt{\frac{1}{n}}$ in the following sense

$$\left\| \max_{k=0, \dots, n} |\bar{X}_{t_k^n}^n - X_{t_k^n}| \right\|_{L^p(\mathbb{P})} \leq C_{p, b, \sigma, T} \sqrt{\frac{T}{n}} (1 + |x|).$$

As a consequence, $\mathbb{E}f(\bar{X}_T^n) \rightarrow \mathbb{E}f(X_T)$ with a $O\left(\sqrt{\frac{1}{n}}\right)$ -rate as the step $\frac{T}{n}$ goes to 0 (*i.e.* $n \rightarrow +\infty$) if f is Lipschitz continuous (or even locally Lipschitz continuous with polynomial growth). The convergence still holds, without rate, if f is continuous with polynomial growth.

In fact if b , σ and f are smooth enough then the so-called *weak* error $\mathbb{E}f(\bar{X}_T^n) - \mathbb{E}f(X_T)$ can be investigated *directly* by more analytic methods. As a result, a (faster) $O\left(\frac{1}{n}\right)$ -ate can be established (see [72]). This rate can be extended to bounded Borel functions f provided σ satisfies a uniform ellipticity property (or even a hypo-ellipticity assumption “à la Hörmander” for a modified Euler scheme) as proved in a celebrated Bally-Talay’s paper (see [7]). This yields

$$u(0, x) = \mathbb{E}f(X_T^{0, x}) = \mathbb{E}f(\bar{X}_T^n) + O\left(\frac{1}{n}\right).$$

The point of interest at this stage is of course that the expectation $\mathbb{E}f(\bar{X}_T^n)$ can be computed by *simulation* since the Euler scheme can be straightforwardly simulated as soon as b and σ are computable functions (and X_0 itself can be simulated). So, we can implement a Monte Carlo simulation to compute $\mathbb{E}f(\bar{X}_T^n)$ *i.e.* simulate M i.i.d. copies $((\bar{X}_T^n)^m)_{m=1, \dots, M}$ of the above Euler scheme at time $T = t_n^n$ and approximate $\mathbb{E}f(\bar{X}_T^n)$ by the strong Law of Large Numbers

$$\mathbb{E}f(\bar{X}_T^n) \approx \frac{1}{M} \sum_{m=1}^M f((\bar{X}_T^n)^m)$$

(simply because *a.s.* convergence holds as $M \rightarrow +\infty$). This second error (known as the Monte Carlo or the *statistical error*) is of order $O\left(\frac{1}{\sqrt{M}}\right)$ owing to the Central Limit Theorem which provides (asymptotic) confidence intervals for an *a priori* prescribed given confidence level involving the asymptotic variance

$$\text{Var}(f(\bar{X}_T^n)) = \mathbb{E}(f(\bar{X}_T^n) - \mathbb{E}f(\bar{X}_T^n))^2 = \mathbb{E}f(\bar{X}_T^n)^2 - (\mathbb{E}f(\bar{X}_T^n))^2.$$

In turn, this quantity can be expressed by expectations of functions of \bar{X}_T^n , consequently it can be computed *on line* as a companion parameter of the Monte Carlo simulation. (By the way note that one often has $\text{Var}(f(\bar{X}_T^n)) \approx \text{Var}(f(X_T))$, either because f is continuous or because the diffusion is “elliptic enough”, see above). For more details on these elementary aspects of the Monte Carlo method, we refer to classical textbooks devoted Monte Carlo simulation and Numerical Probability (see [41] for a more PDE oriented introduction to Monte Carlo method or [30, 65] for more connections with Finance, among many others).

The main asset of this approach is that it is dimension free, in the sense that its complexity grows more or less linearly with the dimension d of the random vector of interest and with little influence of the ellipticity of the function a , at least when the function f is regular as we saw before.

▷ *Step 2b (Quantization based cubature formula).* If one has many computations to carry out with the same operator L , *i.e.* for various functions f , it may be interesting to replace the Monte Carlo simulation by a *cubature* formula based on an optimal quantization of \bar{X}_T^n . To perform this quantization, as it will be seen further on in Section 3, one can rely on a stochastic optimization procedure which can be viewed as a kind of *compressed Monte Carlo* simulation. In that perspective, one faces now the following chain of approximations

$$u(0, x) = \mathbb{E} f(X_T^{0,x}) \approx \mathbb{E} f(\bar{X}_T^n) \approx \mathbb{E} f\left(\widehat{\bar{X}_T^n}^{\Gamma^{(N)}}\right).$$

where $\Gamma^{(N)}$ is an optimal (quadratic) quantization grid for the random vector \bar{X}_T^n .

▷ *Toward automatic meshing* An alternative to the direct quantization procedure is to consider the grid $\Gamma^{(N)}$ as a starting point to produce an optimized mesh for the numerical solving of the original *PDE* by deterministic schemes like finite element or finite volumes methods, etc. In such an approach, an optimal grid needs to be produced at each discretization time t_k^n . This approach has been widely investigated by Gunzberger's group in Florida (USA) (see *e.g.* [24] and the references therein). More recently, a new concept of quantization (dual quantization, see [61]) has refined this point of view by switching from Voronoi diagram to a direct approach of Delaunay triangulation which provides grids better fitted to deterministic numerical analysis methods in medium dimensions.

1.4.2 From optimal stopping theory to variational inequalities

Discrete time optimal stopping theory in a Markov framework. We consider a standard discrete time Markovian framework: let $(X_k)_{0 \leq k \leq n}$ be an \mathbb{R}^d -valued $(\mathcal{F}_k)_{0 \leq k \leq n}$ -Markov chain defined on the filtered probability space $(\Omega, \mathcal{A}, (\mathcal{F}_k)_{0 \leq k \leq n}, \mathbb{P})$ with transitions

$$P_k(x, dy) = \mathbb{P}(X_{k+1} \in dy \mid X_k = x), \quad k = 0, \dots, n-1,$$

so that for every bounded or non-negative Borel function $f : \mathbb{R}^d \rightarrow \mathbb{R}$, $P_k f(x) = \int_{\mathbb{R}^d} f(y) P_k(x, dy)$ and

$$\mathbb{E}(f(X_{k+1}) \mid \mathcal{F}_k) = \mathbb{E}(f(X_{k+1}) \mid X_k) = P_k(f)(X_k).$$

From now on, we denote by \mathcal{F} the filtration $(\mathcal{F}_k)_{0 \leq k \leq n}$. Intuitively, \mathcal{F}_k is a σ -field of \mathcal{A} which represents the *observable* (or *available*) *information* at time k . Let $Z = (Z_k)_{0 \leq k \leq n}$ be an \mathcal{F} -adapted obstacle/payoff sequence of non-negative *integrable* random variables of the form

$$0 \leq Z_k = f_k(X_k) \in L^1(\Omega, \mathcal{F}_k, \mathbb{P}), \quad k = 0, \dots, n.$$

In term of modeling, this can be understood as follows: an agent plays a stochastic game. Each round of the game takes place at time $k \in \{0, \dots, n\}$. The random variable Z_k represents the reward when leaving the game at time k . The question: “Is there an optimal way to quit the game in order to maximize the gain?”

By “quitting the game” we mean leaving possibly at a *random* time $\tau : \Omega \rightarrow \{0, \dots, n\}$ but always honestly *i.e.* in such a way that, for every $\ell \in \{0, \dots, n\}$, the event

$$\{\tau = \ell\} = \{\omega \in \Omega \mid \tau(\omega) = \ell\} \in \mathcal{F}_\ell.$$

This means that if the agent adopts this strategy τ , all the information that leads him/her to leave the game at a time ℓ is available at time $\ell = \tau(\omega)$ after having observed the history of the game up to time ℓ *i.e.* $(X_k(\omega))_{0 \leq k \leq \tau(\omega)}$. Such a strategy is reasonable provided that the payoff sequence

$(Z_\ell)_{\ell=0,\dots,n}$ has been supposed adapted to the filtration \mathcal{F} as we did. Such a random variable is called an \mathcal{F} -stopping time.

Imagine that the agent enters the game at time $k \in \{0, \dots, n\}$. The aim of the agent is to attain the optimal possible mean gain given the available information at time k , namely

$$U_k = \mathbb{P}\text{-esssup} \left\{ \mathbb{E}(f_\tau(X_\tau) | \mathcal{F}_k), \tau : (\Omega, \mathcal{A}) \rightarrow \{k, \dots, n\}, \mathcal{F}\text{-stopping time} \right\} \quad (1.20)$$

with an optimal mean gain given by $\mathbb{E}U_k$. The next question is to know whether there is an *optimal stopping time*, when starting the game at time k , i.e. a $\{k, \dots, n\}$ -valued \mathcal{F} -stopping time τ_k satisfying

$$U_k = \mathbb{E}(Z_{\tau_k} | \mathcal{F}_k).$$

For more details on this topic we refer to [51] or [40] (Chapter 2) or, more recently, [42].

The sequence $U = (U_k)_{0 \leq k \leq n}$ is known as the $(\mathbb{P}, \mathcal{F})$ -Snell envelope of the sequence $(Z_k)_{0 \leq k \leq n}$.

From a numerical point of view, we want to compute, or at least approximate, this Snell envelope, especially at time 0 and the related optimal stopping time τ_0 (if any).

The first important result of discrete time optimal stopping theory is the following Backward Dynamic Programming Principle (BDPP).

Proposition 1.4. (a) The $(\mathbb{P}, \mathcal{F})$ -Snell envelope $(U_k)_{0 \leq k \leq n}$ satisfies the following BDDP:

$$U_n = Z_n \text{ and } U_k = \max \left(Z_k, \mathbb{E}(U_{k+1} | \mathcal{F}_k) \right), \quad k = 0, \dots, n-1, \quad (1.21)$$

and $\tau_k = \min \{ \ell \in \{k, \dots, n\} | U_\ell = Z_\ell \}$ is an optimal stopping time at time k i.e.

$$U_k = \mathbb{E}(Z_{\tau_k} | \mathcal{F}_k).$$

(b) Furthermore, for every $k \in \{0, \dots, n\}$, there exists a Borel function $u_k : \mathbb{R}^d \rightarrow \mathbb{R}$ such that

$$U_k = u_k(X_k), \quad k = 0, \dots, n,$$

where the sequence $(u_k)_{0 \leq k \leq n}$ satisfies

$$u_n = f_n \quad \text{and} \quad u_k = \max(f_k, P_k u_{k+1}), \quad k = 0, \dots, n-1.$$

Proof. (a) We prove this claim by a backward induction on k . The fact that $U_n = Z_n$ is obvious since $\tau_n = n$ is the only $\{n\}$ -valued stopping time (hence optimal at time n).

Now let $k \in \{0, \dots, n-1\}$. Assume that $\tau_{k+1} = \min \{ \ell \in \{k+1, \dots, n\} | U_\ell = Z_\ell \}$ is an optimal \mathcal{F} -stopping time at time $k+1$ i.e.

$$U_{k+1} = \mathbb{E}(Z_{\tau_{k+1}} | \mathcal{F}_{k+1}).$$

It follows that

$$\begin{aligned} \mathbb{E}(U_{k+1} | \mathcal{F}_k) &= \mathbb{E}(\mathbb{E}(Z_{\tau_{k+1}} | \mathcal{F}_{k+1}) | \mathcal{F}_k) \\ &= \mathbb{E}(Z_{\tau_{k+1}} | \mathcal{F}_k) \\ &\leq U_k \end{aligned}$$

since $\tau_{k+1} \geq k+1$ is in particular a $\{k, \dots, n\}$ -valued \mathcal{F} -stopping time. It implies the inequality in the last line owing to the definition (1.20) of the Snell envelope. Since $U_k \geq Z_k$, by considering the deterministic stopping time $\tau = k$, we finally get

$$U_k \geq \max \left(Z_k, \mathbb{E}(U_{k+1} | \mathcal{F}_k) \right).$$

To prove the reverse inequality and establish the *BDPP* at time k , we consider a $\{k, \dots, n\}$ -valued \mathcal{F} -stopping time τ . Then, using that $\{\tau \geq k+1\} = {}^c\{\tau \leq k\} \in \mathcal{F}_k$,

$$\mathbb{E}(Z_\tau | \mathcal{F}_k) = Z_k \mathbf{1}_{\{\tau=k\}} + \mathbb{E}(Z_{\tau \vee (k+1)} | \mathcal{F}_k) \mathbf{1}_{\{\tau \geq k+1\}} \quad \mathbb{P}\text{-a.s.}$$

Now, using that $\tau \vee (k+1)$ is a $\{k+1, \dots, n\}$ -valued \mathcal{F} -stopping time,

$$\begin{aligned} \mathbb{E}(Z_{\tau \vee (k+1)} | \mathcal{F}_k) &= \mathbb{E}(\mathbb{E}(Z_{\tau \vee (k+1)} | \mathcal{F}_{k+1}) | \mathcal{F}_k) \quad \mathbb{P}\text{-a.s.} \\ &\leq \mathbb{E}(U_{k+1} | \mathcal{F}_k) \quad \mathbb{P}\text{-a.s.} \end{aligned}$$

by the definition (1.20) of U_{k+1} . As a consequence,

$$\begin{aligned} \mathbb{E}(Z_\tau | \mathcal{F}_k) &\leq Z_k \mathbf{1}_{\{\tau=k\}} + \mathbb{E}(U_{k+1} | \mathcal{F}_k) \mathbf{1}_{\{\tau \geq k+1\}} \\ &\leq \max(Z_k, \mathbb{E}(U_{k+1} | \mathcal{F}_k)). \end{aligned}$$

Taking the \mathbb{P} -esssup over all such $\{k, \dots, n\}$ -valued \mathcal{F} -stopping times, we get

$$U_k \leq \max(Z_k, \mathbb{E}(U_{k+1} | \mathcal{F}_k)) \quad \mathbb{P}\text{-a.s.}$$

which in turn implies that the Snell envelope satisfies (1.21) at time k . Let us deal now with the optimal stopping time. One checks from its definition that

$$\tau_k = k \mathbf{1}_{\{U_k = Z_k\}} + \tau_{k+1} \mathbf{1}_{\{U_k \neq Z_k\}}.$$

Using that both events $\{U_k = Z_k\}$ and $\{U_k \neq Z_k\}$ lie in \mathcal{F}_k and that $\{U_k \neq Z_k\} \subset \{\mathbb{E}(U_{k+1} | \mathcal{F}_k) = U_k\}$, we get the following string of equalities

$$\begin{aligned} \mathbb{E}(Z_{\tau_k} | \mathcal{F}_k) &= Z_k \mathbf{1}_{\{U_k = Z_k\}} + \mathbb{E}(Z_{\tau_{k+1}} | \mathcal{F}_k) \mathbf{1}_{\{U_k \neq Z_k\}} \quad \mathbb{P}\text{-a.s.} \\ &= U_k \mathbf{1}_{\{U_k = Z_k\}} + \mathbb{E}(\mathbb{E}(Z_{\tau_{k+1}} | \mathcal{F}_{k+1}) | \mathcal{F}_k) \mathbf{1}_{\{U_k \neq Z_k\}} \quad \mathbb{P}\text{-a.s.} \\ &= U_k \mathbf{1}_{\{U_k = Z_k\}} + \mathbb{E}(U_{k+1} | \mathcal{F}_k) \mathbf{1}_{\{U_k \neq Z_k\}} \quad \mathbb{P}\text{-a.s.} \\ &= U_k \mathbf{1}_{\{U_k = Z_k\}} + U_k \mathbf{1}_{\{U_k \neq Z_k\}} \quad \mathbb{P}\text{-a.s.} \\ &= U_k. \end{aligned}$$

(c) This straightforwardly follows from the fact that, owing to the definition of the Markov transitions, if $U_{k+1} = u_{k+1}(X_{k+1})$ for $k \in \{0, \dots, n-1\}$,

$$\mathbb{E}(U_{k+1} | \mathcal{F}_k) = \mathbb{E}(U_{k+1} | X_k) = P_k u_{k+1}(X_k) \quad \mathbb{P}\text{-a.s.}$$

so that $U_k = \max(f_k(X_k), \mathbb{E}(U_{k+1} | \mathcal{F}_k)) = \max(f_k(X_k), P_k u_{k+1}(X_k)) = u_k(X_k)$. \square

Remarks. • Note that claims (a) and (b) do not make use of the Markov property so that they remain true for any \mathcal{F} -adapted integrable sequence $Z = (Z_k)_{0 \leq k \leq n}$ of non-negative random variables.

• The above optimal stopping times may be not unique but it can be shown that τ_k as defined above is always the lowest stopping time for the game starting at time k (in the sense that another optimal stopping time $\tilde{\tau}_k$ for the game starting at k satisfies $\tilde{\tau}_k \geq \tau_k$ a.s.). Moreover it follows from the above proof that the sequence of optimal stopping times $(\tau_k)_{0 \leq k \leq n}$ satisfies the *dual backward dynamic programming principle*

$$\tau_k = k \mathbf{1}_{\{U_k = Z_k\}} + \tau_{k+1} \mathbf{1}_{\{U_k \neq Z_k\}}. \quad (1.22)$$

This second backward dynamic programming principle – sometimes called *dual* – is often used in regression methods to compute the Snell envelope (see e.g. Longstaff-Schwarz's paper [44]).

Approximation of the Snell envelope by a quantization tree. The starting idea of the *quantization tree method* originally introduced in [2] is to approximate the whole Markovian dynamics of the chain $X = (X_k)_{0 \leq k \leq n}$ using a sequence of quantizations $(X_k)_{0 \leq k \leq n}$ to produce a *skeleton* of the distribution of X supported by the tree made up by the quantization grids $\Gamma_k = \{x_1^k, \dots, x_{N_k}^k\}$ of X_k , $k = 0, \dots, n$ and the transitions weights w_{ij}^k between states x_i^k and x_j^{k+1} defined for every $k \in \{0, \dots, n-1\}$ by

$$w_{ij}^k = \mathbb{P}(\widehat{X}_{k+1} = x_j^{k+1} | \widehat{X}_k = x_i^k), \quad 1 \leq i \leq N_k, \quad 1 \leq j \leq N_{k+1}.$$

Although we will rely on these transitions below, it is important to have in mind that the sequence of quantizations $(\widehat{X}_k)_{0 \leq k \leq n}$ is *not a Markov chain* in general.

At this stage, the idea is to mimic the *BDPP* (1.21) satisfied by the Snell envelope $(U_k)_{0 \leq k \leq n}$ by replacing X_k by its Γ_k -quantization \widehat{X}_k . For every $k \in \{0, \dots, n\}$, we replace X_k by a function $\widehat{X}_k = \pi_k(X_k)$ of X_k taking values in a *grid* Γ_k , (where $\pi_k : \mathbb{R}^d \rightarrow \Gamma_k$ is a Borel function).

We will see in the next section an optimal way to specify the function π_k (including its value “grid” $\Gamma_k = \pi_k(\mathbb{R}^d)$) by minimizing the induced L^p -mean quadratic error $\|X_k - \widehat{X}_k\|_{L^p(\mathbb{P})}$.

The key point, keeping in mind as it has already been emphasized that the sequence $(\widehat{X}_k)_{0 \leq k \leq n}$ has no reason to share a Markov property, is *to force this Markov property* in the *BDPP*. Doing so, we introduce a Quantized Backward (pseudo-)Dynamic Programming Principle for the sequence of quantized payoff/obstacle $(f_k(\widehat{X}_k))_{0 \leq k \leq n}$ reading

$$(QBDPP) \equiv \quad \widehat{U}_n = f_n(\widehat{X}_n), \quad \widehat{U}_k = \max \left(f_k(\widehat{X}_k), \mathbb{E}(\widehat{U}_{k+1} | \widehat{X}_k) \right). \quad (1.23)$$

The forcing of the Markov property is obtained by directly *conditioning by the single random vector* \widehat{X}_k rather than by the σ -field $\widehat{\mathcal{F}}_k := \sigma(\widehat{X}_\ell, 0 \leq \ell \leq k)$.

Then it is straightforward by a backward induction that, for every $k \in \{0, \dots, n\}$,

$$\widehat{U}_k = \widehat{u}_k(\widehat{X}_k), \quad \widehat{u}_k : \mathbb{R}^d \rightarrow \mathbb{R}_+, \text{ Borel function.}$$

Then, from a computational point of view, (1.23) reads

$$\begin{aligned} \widehat{u}_n(x_i^n) &= f_n(x_i^n), \quad 1 \leq i \leq N_n, \\ \widehat{u}_k(x_i^k) &= \max \left(f_k(x_i^k), \sum_{j=1}^{N_{k+1}} w_{ij}^k \widehat{u}_{k+1}(x_j^{k+1}) \right), \quad 1 \leq i \leq N_k, \quad 1 \leq j \leq N_{k+1}, \quad 0 \leq k \leq n-1, \end{aligned} \quad (1.24)$$

where $\Gamma_k = \{x_1^k, \dots, x_{N_k}^k\}$, $k = 0, \dots, n$. See subsection 2.3.4 for details on the practical implementation, including the computation by Monte Carlo simulation of the transition weights w_{ij}^k .

Error bounds. The following theorem establishes the control on the approximation of the true Snell envelope $(U_k)_{0 \leq k \leq n}$ by the quantized pseudo-Snell envelope $(\widehat{U}_k)_{0 \leq k \leq n}$ using the L^p -mean approximation errors $\|X_k - \widehat{X}_k\|_{L^p(\mathbb{P})}$.

Theorem 1.3 (see [2] (2001), [61] (2011)). *Assume that all functions $f_k : \mathbb{R}^d \rightarrow \mathbb{R}_+$ are Lipschitz continuous and that the transitions $P_k(x, dy) = \mathbb{P}(X_{k+1} \in dy | X_k = x)$ propagate Lipschitz continuous i.e.*

$$[P_k]_{\text{Lip}} = \sup_{[g]_{\text{Lip}} \leq 1} [P_k g]_{\text{Lip}} < +\infty, \quad k = 0, \dots, n.$$

Set $[P]_{\text{Lip}} = \max_{0 \leq k \leq n-1} [P_k]_{\text{Lip}}$ and $[f]_{\text{Lip}} = \max_{0 \leq k \leq n} [f_k]_{\text{Lip}}$.

Let $p \in [1, +\infty)$. We assume that $\sum_{k=1}^n \|X_k\|_{L^p(\mathbb{P})} + \|\hat{X}_k\|_{L^p(\mathbb{P})} < +\infty$.

(a) For every $k \in \{0, \dots, n\}$,

$$\|U_k - \hat{U}_k\|_{L^p(\mathbb{P})} \leq 2[f]_{\text{Lip}} \sum_{\ell=k}^n ([P]_{\text{Lip}} \vee 1)^{n-\ell} \|X_\ell - \hat{X}_\ell\|_{L^p(\mathbb{P})}.$$

(b) If $p = 2$, for every $k \in \{0, \dots, n\}$,

$$\|U_k - \hat{U}_k\|_{L^2(\mathbb{P})} \leq \sqrt{2}[f]_{\text{Lip}} \left(\sum_{\ell=k}^n ([P]_{\text{Lip}} \vee 1)^{2(n-\ell)} \|X_\ell - \hat{X}_\ell\|_{L^2(\mathbb{P})}^2 \right)^{\frac{1}{2}}. \quad (1.25)$$

Remark. In fact the error bounds established in this theorem remain mathematically true as soon as the “quantizations” \hat{X}_k are simply $\sigma(X_k)$ -measurable *i.e.* when $\hat{X}_k = \pi_k(X_k)$ where $\pi_k : \mathbb{R}^d \rightarrow \mathbb{R}^d$ is a Borel functions of X_k for every $k \in \{0, \dots, n\}$, provided the integrability assumptions on \hat{X}_k which give sense to the *QBDPP* as defined in (1.23) are satisfied. If the functions π_k take countably many values, even (1.24) still makes sense; otherwise sums should be replaced by integrals with respect to conditional measures and the computational tractability is usually lost.

Proof. STEP 1. First, we control the Lipschitz constants of the functions u_k . It follows from the elementary inequality $|\sup_{i \in I} a_i - \sup_{i \in I} b_i| \leq \sup_{i \in I} |a_i - b_i|$, $a_i, b_i \in \mathbb{R}$, $i \in I$, that

$$\begin{aligned} [u_k]_{\text{Lip}} &\leq \max([f_k]_{\text{Lip}}, [P_k u_{k+1}]_{\text{Lip}}) \\ &\leq \max([f]_{\text{Lip}}, [P_k]_{\text{Lip}} [u_{k+1}]_{\text{Lip}}) \end{aligned}$$

with the convention $[u_{n+1}]_{\text{Lip}} = 0$. A straightforward backward induction yields

$$[u_k]_{\text{Lip}} \leq [f]_{\text{Lip}} ([P]_{\text{Lip}} \vee 1)^{n-k}. \quad (1.26)$$

STEP 2. We focus on claim (b) (quadratic case $p = 2$). First, we derive from Proposition 1.2(a) applied to $X = X_{k+1}$ and $Y = X_k$, $Q = P_k$ and $f = u_{k+1}$, $g = \hat{u}_{k+1}$ and $h = \hat{u}_k$ that

$$\left\| \mathbb{E}(U_{k+1}|X_k) - \mathbb{E}(\hat{U}_{k+1}|\hat{X}_k) \right\|_{L^2(\mathbb{P})}^2 \leq [P_k u_{k+1}]^2 \|X_k - \hat{X}_k\|_{L^2(\mathbb{P})}^2 + \|u_{k+1}(X_{k+1}) - \hat{u}_{k+1}(\hat{X}_{k+1})\|_{L^2(\mathbb{P})}^2. \quad (1.27)$$

Now, it follows from both original and quantized dynamic programming formulas that

$$|U_k - \hat{U}_k| \leq \max(|f_k(X_k) - f_k(\hat{X}_k)|, |\mathbb{E}(U_{k+1}|X_k) - \mathbb{E}(\hat{U}_{k+1}|\hat{X}_k)|)$$

so that

$$|U_k - \hat{U}_k|^2 \leq |f_k(X_k) - f_k(\hat{X}_k)|^2 + |\mathbb{E}(U_{k+1}|X_k) - \mathbb{E}(\hat{U}_{k+1}|\hat{X}_k)|^2.$$

Taking expectation and plugging (1.27) in the above inequality yields for every $k \in \{0, \dots, n-1\}$,

$$\|U_k - \hat{U}_k\|_{L^2(\mathbb{P})}^2 \leq ([f]_{\text{Lip}}^2 + [P]_{\text{Lip}}^2 [u_{k+1}]_{\text{Lip}}^2) \|X_k - \hat{X}_k\|_{L^2(\mathbb{P})}^2 + \|U_{k+1} - \hat{U}_{k+1}\|_{L^2(\mathbb{P})}^2$$

still with the convention $[u_{n+1}]_{\text{Lip}} = 0$. Now, using (1.26), we obtain

$$\begin{aligned} [f]_{\text{Lip}}^2 + [P]_{\text{Lip}}^2 [u_{k+1}]_{\text{Lip}}^2 &\leq [f]_{\text{Lip}}^2 + [P]_{\text{Lip}}^2 (1 \vee [P]_{\text{Lip}})^{2(n-(k+1))} \\ &\leq 2[f]_{\text{Lip}}^2 (1 \vee [P]_{\text{Lip}})^{2(n-k)}. \end{aligned}$$

Consequently

$$\begin{aligned} \|U_k - \widehat{U}_k\|_{L^2(\mathbb{P})}^2 &\leq 2 \sum_{\ell=k}^{n-1} [f]_{\text{Lip}}^2 (1 \vee [P]_{\text{Lip}})^{2(n-\ell)} \|X_\ell - \widehat{X}_\ell\|_{L^2(\mathbb{P})}^2 + [f]_{\text{Lip}}^2 \|X_n - \widehat{X}_n\|_{L^2(\mathbb{P})}^2 \\ &\leq 2 [f]_{\text{Lip}}^2 \sum_{\ell=k}^n (1 \vee [P]_{\text{Lip}})^{2(n-\ell)} \|X_\ell - \widehat{X}_\ell\|_{L^2(\mathbb{P})}^2 \end{aligned}$$

which completes the proof.

Claim (a) can be established following the above lines and Claim (b) of Proposition 1.2. \square

EXAMPLE OF APPLICATION: THE EULER SCHEME. Let $(\bar{X}_{t_k^n})_{0 \leq k \leq n}$ be the Euler scheme with step $\frac{T}{n}$ of the d -dimensional diffusion $(X_t^{0,x})_{t \in [0,T]}$, solution to the SDE (1.17). It defines a homogeneous Markov chain with transition

$$\bar{P}_k^n g(x) = \mathbb{E} g \left(x + \frac{T}{n} b(t_k^n, \bar{X}_{t_k^n}^n) + \sigma(t_k^n, \bar{X}_{t_k^n}^n) \sqrt{\frac{T}{n}} Z \right), \quad Z \stackrel{\mathcal{L}}{\sim} \mathcal{N}(0, I_q).$$

If f is Lipschitz continuous,

$$\begin{aligned} |\bar{P}_k^n g(x) - \bar{P}_k^n g(x')|^2 &\leq [g]_{\text{Lip}}^2 \mathbb{E} \left| x - x' + \frac{T}{n} (b(t_k^n, x) - b(t_k^n, x')) + \sqrt{\frac{T}{n}} (\sigma(t_k^n, x) - \sigma(t_k^n, x')) Z \right|^2 \\ &\leq [g]_{\text{Lip}}^2 \left(\left| x - x' + \frac{T}{n} (b(t_k^n, x) - b(t_k^n, x')) \right|^2 + \left\| \sigma(t_k^n, x) - \sigma(t_k^n, x') \right\|^2 \frac{T}{n} \right) \\ &\leq [g]_{\text{Lip}}^2 |x - x'|^2 \left(1 + \frac{T}{n} [\sigma]_{\text{Lip}}^2 + \frac{2T}{n} [b]_{\text{Lip}} + \frac{T^2}{n^2} [b]_{\text{Lip}}^2 \right) \end{aligned}$$

where $\|A\| = \sqrt{\text{Tr}(AA^*)}$, Tr stands for the trace of a square matrix, A^* stands for the transpose of the $d \times q$ -matrix A . The coefficient $[\sigma]_{\text{Lip}}$ should be understood as the Lipschitz coefficient of $\sigma : (\mathbb{R}^d, |\cdot|) \rightarrow (\mathbb{M}(d, q, \mathbb{R}), \|\cdot\|)$. As a consequence

$$[\bar{P}_k^n g]_{\text{Lip}} \leq \left(1 + \frac{C_{b,\sigma,T} T}{n} \right) [g]_{\text{Lip}}, \quad k = 0, \dots, n-1,$$

where $C_{b,\sigma,T} = [b]_{\text{Lip}} + \frac{1}{2} ([b]_{\text{Lip}}^2 T + [\sigma]_{\text{Lip}}^2)$ i.e.

$$[\bar{P}^n]_{\text{Lip}} \leq 1 + \frac{C_{b,\sigma,T} T}{n}.$$

Let $(\bar{U}_k)_{0 \leq k \leq n}$ denote the $(\mathcal{F}_{t_k^n}^W)_{0 \leq k \leq n}$ -Snell envelope of the payoff process $(f_k(\bar{X}_{t_k^n}^n))_{0 \leq k \leq n}$ and $(\widehat{U}_k)_{0 \leq k \leq n}$ the quantized pseudo-Backward Dynamic Principle associated to a quantized version of this payoff process $(\widehat{X}_{t_k^n}^n)_{0 \leq k \leq n}$ as defined by (1.23). Applying the control established in claim (b) of the above theorem yields with obvious notations

$$\begin{aligned} \|U_k - \widehat{U}_k\|_{L^2(\mathbb{P})} &\leq \sqrt{2} [f]_{\text{Lip}} \left(\sum_{\ell=k}^n \left(1 + \frac{C_{b,\sigma,T} T}{n} \right)^{2(n-\ell)} \|X_\ell - \widehat{X}_\ell\|_{L^2(\mathbb{P})}^2 \right)^{\frac{1}{2}} \\ &\leq \sqrt{2} [f]_{\text{Lip}} \left(\sum_{\ell=k}^n e^{2C_{b,\sigma,T}(T-t_\ell^n)} \|X_\ell - \widehat{X}_\ell\|_{L^2(\mathbb{P})}^2 \right)^{\frac{1}{2}} \end{aligned} \quad (1.28)$$

$$\leq \sqrt{2} [f]_{\text{Lip}} e^{C_{b,\sigma,T} T} \left(\sum_{\ell=k}^n \|X_\ell - \widehat{X}_\ell\|_{L^2(\mathbb{P})}^2 \right)^{\frac{1}{2}}. \quad (1.29)$$

The fact of interest concerning the upper bounds (1.29) and (1.29) that should be emphasized is that the real constants involved in them only depend on b , σ and T *but not on n* (except for the sum itself of course). We will see further on that the penultimate inequality can be used to “calibrate” the sizes of the quantization grids associated to the \hat{X}_k (see section 2.3.4).

Finally note that the above computations hold more generally for the Euler scheme of a diffusion driven by a Lévy processes Z with Lévy measure ν satisfying $\nu(z^2) < +\infty$ (i.e. $Z_t \in L^2$ for every $t \in [0, T]$).

Connection with parabolic variational inequalities. We consider the parabolic variational inequality on $[0, T] \times \mathbb{R}^d$ defined by

$$\max \left(f - u, \frac{\partial u}{\partial t} + Lu \right) (t, x) = 0, \quad (t, x) \in [0, T] \times \mathbb{R}^d, \quad u(T, \cdot) = f(T, \cdot) \quad (1.30)$$

where L is the operator introduced in (1.16) (which is for the probabilist the generator of the diffusion (1.17)). We assume that $f : [0, T] \times \mathbb{R}^d \rightarrow \mathbb{R}_+$ is (at least) continuous with polynomial growth in the space variable x , uniformly in $t \in [0, T]$.

From now on we will switch to a completely heuristic reasoning in order to highlight in a simpler way the connection between the above variational inequality and optimal stopping theory in continuous time. This connection holds through a probabilistic representation formula involving the diffusion process (1.17) in the same spirit as that which holds for parabolic PDEs through the Feynman-Kac formula. A probabilistic representation of this variational inequality (1.30) is provided, under appropriate conditions that we will not detail here (see [6, 5] or, more recently, [42] and the references therein for a rigorous presentation in various settings), by the continuous time optimal stopping problem, related to the diffusion process $(X^{x,t})_{s \in [t, T]}$ solution to Equation (1.17) and the *obstacle process* $Z_t := f(t, X_t^{x,0})$, $t \in [0, T]$. This obstacle process is \mathcal{F}^W -adapted and continuous (hence predictable) where \mathcal{F}^W denotes the augmented filtration of the Brownian motion W . The function f having polynomial growth in x uniformly in $t \in [0, T]$, then $\sup_{t \in [0, T]} Z_t \in L^1(\mathbb{P})$. We define the \mathbb{P} -Snell envelope $(U_t)_{t \in [0, T]}$ by

$$U_t = \mathbb{P}\text{-esssup} \left\{ \mathbb{E}(f(\tau, Z_\tau) \mid \mathcal{F}_t), \tau \in \mathcal{T}_{t,T}^W \right\} \quad (1.31)$$

where $\mathcal{T}_{t,T}^W$ denotes the set of \mathcal{F}^W -stopping times $\tau : (\Omega, \mathcal{A}, \mathbb{P}) \rightarrow [0, T]$ i.e. $[t, T]$ -valued random times satisfying

$$\forall s \in [t, T], \{ \tau \leq s \} \in \mathcal{F}_s^W.$$

(This definition implies that for every $s \in [t, T]$, $\{ \tau = s \} \in \mathcal{F}_s^W$ but the converse – which is required for technical reasons – is usually not true since $[0, T]$ is not countable.) One shows (see e.g. [71]) that under these conditions, there exists a function $u : [0, T] \times \mathbb{R}^d \rightarrow \mathbb{R}_+$ such that $U_t = u(t, X_t^{x,0})$, $t \in [0, T]$, and, in terms of *réduite*,

$$u(t, x) = \sup \left\{ \mathbb{E} f(\tau, X_\tau^{x,t}), \tau \in \mathcal{T}_{t,T}^W, t \in [0, T], x \in \mathbb{R}^d \right\}.$$

Unfortunately, even in simple frameworks, this function u is not smooth enough, say $\mathcal{C}^{1,2}([0, T] \times \mathbb{R}^d, \mathbb{R})$, to apply Itô’s formula.

We consider again the uniform mesh of $[0, T]$ of step $\frac{T}{n}$, $t_k^n = \frac{kT}{n}$, $k = 0, \dots, n$. We can approximate the sequence $(U_{t_k^n})_{0 \leq k \leq n}$ by the sequence $(U_{t_k^n}^n)_{0 \leq k \leq n}$ defined by replacing in (1.31) the set $\mathcal{T}_{t,T}$ by its subset $\mathcal{T}_{k,n}^n$ of \mathcal{F}^W -stopping times taking values in $\{t_k^n, k = 0, \dots, n\}$ of $[0, T]$. Stopping times of $\mathcal{T}_{k,n}^n$ are of discrete nature and are subsequently characterized by the simpler property

$$\mathcal{T}_{k,n}^n \text{ if and only if } \{ \tau = t_k^n \} \in \mathcal{F}_{t_k^n}^W, k = 0, \dots, n.$$

As a consequence, $U_{t_k^n}^n$ is defined for every $k \in \{0, \dots, n\}$ by

$$U_{t_k^n}^n = \mathbb{P}\text{-esssup} \left\{ \mathbb{E}(f(\tau, Z_\tau) \mid \mathcal{F}_{t_k^n}), \tau \in \mathcal{T}_{k,n}^n \right\}.$$

The sequence $(U_{t_k^n}^n)_{0 \leq k \leq n}$ is nothing but the \mathbb{P} -Snell envelope of $(Z_{t_k^n})_{0 \leq k \leq n}$ viewed as a discrete time optimal stopping problem associated to the Markov chain $(X_{t_k^n}^{x,0})_{0 \leq k \leq n}$. Its transitions are given by $P_k(\xi, dy) = \mathbb{P}(X_{t_{k+1}^n} \in dy \mid X_{t_k^n} = \xi)$, $k = 0, \dots, n-1$. They are usually not explicit and, more important in practice, even not simulatable: more generally, exact simulation of time samples of a d -dimensional diffusion process is impossible (at a reasonable cost) as soon as $d \geq 2$.

Then, keeping in mind that $U_{t_k^n}^n = U_T^n$, the sequence $(U_{t_k^n}^n)_{0 \leq k \leq n}$ satisfies the following *BDPP*

$$U_{t_n}^n = f(T, X_T^{x,0}), \quad U_{t_k^n}^n = \max \left(f(X_{t_k^n}^{x,0}), \mathbb{E}(U_{t_{k+1}^n}^n \mid X_{t_k^n}^{x,0}) \right), \quad 0 \leq k \leq n-1.$$

Consequently, one may consider that $U_{t_k^n}$ is close enough to $U_{t_k^n}^n$ so that the sequence $(U_{t_k^n})_{0 \leq k \leq n}$ approximately satisfies

$$U_T = f(T, X_T^{x,0}), \quad \max \left(f(X_{t_k^n}^{x,0}) - U_{t_k^n}, \mathbb{E}(U_{t_{k+1}^n} \mid X_{t_k^n}^{x,0}) - U_{t_k^n} \right) \approx 0$$

or equivalently

$$u(T, X_T^{x,0}) = f(T, X_T^{x,0}), \quad 0 = \max \left(f(X_{t_k^n}^{x,0}) - u(t_k^n, X_{t_k^n}^{x,0}), \mathbb{E}(u(t_{k+1}^n, X_{t_{k+1}^n}^{x,0}) \mid X_{t_k^n}^{x,0}) - u(t_k^n, X_{t_k^n}^{x,0}) \right).$$

If, as a second step, we assume that, in fact, the function u has the requested regularity $\mathcal{C}^{1,2}$ to apply Itô's Lemma between t_k^n and t_{k+1}^n , and, moreover, that u has polynomial growth in x , uniformly in $t \in [0, T]$. Then one obtains

$$u(t_{k+1}^n, X_{t_{k+1}^n}^{x,0}) = u(t_k^n, X_{t_k^n}^{x,0}) + \int_{t_k^n}^{t_{k+1}^n} \left(\frac{\partial u}{\partial t} + Lu \right) (s, X_s^{x,0}) ds + \int_{t_k^n}^{t_{k+1}^n} (\nabla_x u \mid \sigma)(s, X_s^{x,0}) dW_s$$

where the stochastic integral with respect to W is a true martingale under our assumptions on b , σ (linear growth) and f (polynomial growth). As a consequence,

$$\begin{aligned} \mathbb{E}(u(t_{k+1}^n, X_{t_{k+1}^n}^{x,0}) \mid X_{t_k^n}^{x,0}) - u(t_k^n, X_{t_k^n}^{x,0}) &= \mathbb{E} \left(\int_{t_k^n}^{t_{k+1}^n} \left(\frac{\partial u}{\partial t} + Lu \right) (s, X_s^{x,0}) ds \right) \quad \mathbb{P}\text{-a.s.} \\ &\approx \left(\frac{\partial u}{\partial t} + Lu \right) (t_k^n, X_{t_k^n}^{x,0}) \frac{T}{n} \quad \mathbb{P}\text{-a.s.} \end{aligned}$$

Finally, this leads to

$$u(T, X_T^{x,0}) = f(T, X_T^{x,0}), \quad \max \left(f(X_{t_k^n}^{x,0}) - u(t_k^n, X_{t_k^n}^{x,0}), \left(\frac{\partial u}{\partial t} + Lu \right) (t_k^n, X_{t_k^n}^{x,0}) \right) \approx 0 \quad \mathbb{P}\text{-a.s.}$$

Letting $n \rightarrow +\infty$, one may reasonably guess, switching back to continuous time that, $\mathbb{P}\text{-a.s.}$,

$$u(T, X_T^{x,0}) = f(T, X_T^{x,0}), \quad \max \left(f(X_t) - u(t, X_t^{x,0}), \left(\frac{\partial u}{\partial t} + Lu \right) (t, X_t^{x,0}) \right) = 0.$$

If the support of $X_t^{x,0}$ is the whole space \mathbb{R}^d for every $t \in (0, T)$, this suggests that u is a solution to the above variational inequality (1.30).

The simplest setting in which the above heuristic reasoning is not trivial can be made rigorous is when $X_t^{x,0} = x + W_t$, relying on distribution theory and extended versions of Itô's lemma (see [42] for a rigorous variational approach using distribution theory).

In practice, this approach is usually used in a backward way as a verification theorem: starting from a solution u to (1.30) (possibly in a viscosity sense) with enough regularity, one checks that $(u(t, X_t^{x,0}))_{t \in [0,T]}$ is the \mathbb{P} -Snell envelope of the payoff/obstacle process $Z_t = f(t, X_t^{x,0})$ (see again [42] and [6]).

From a numerical point of view, this connection suggests numerical methods to solve (1.30), at least in higher dimension when deterministic schemes become inefficient due to the *curse of dimensionality*: any probabilistic method devised to compute the *réduite* of a discrete time optimal stopping problem with a Markov structure process can be viewed as a way to solve (1.30). Having in mind that, in these probabilistic methods, the discrete time Markov process needs to be simulated at a moment or another, so we cannot rely on a sample $(X_{t_k^n})_{0 \leq k \leq n}$ of the diffusion process itself at least when $d \geq 2$ ⁽⁴⁾, with of course, the noticeable exception of diffusion processes of the form $X_t^{x,0} = \varphi(t, x, W_t)$ like *e.g.* the Black-Scholes model.

Consequently, for numerical purposes, an additional step is necessary : one has to introduce the discrete time Euler scheme $\bar{X}^{n,x,0} = (\bar{X}_{t_k^n}^{n,x,0})_{0 \leq k \leq n}$ with step $\frac{T}{n}$ (with obvious notations) of the diffusion $(X_t^{x,0})_{t \in [0,T]}$ and the Snell envelope $\bar{U}^n = (\bar{U}_{t_k^n}^n)_{0 \leq k \leq n}$ related to the payoff/obstacle process $\bar{Z}_{t_k^n}^n = f(t_k^n, \bar{X}_{t_k^n}^{n,x,0})$, $k = 0, \dots, n$.

All these approximations of the “true” original Snell envelope have been investigated in full details in [3], depending on the regularity of the payoff function and of the coefficients b and σ (or $a = \sigma\sigma^*$).

Note that for the sake of simplicity, we did not take into account a zero order term in (1.30). This is done in the cited literature and corresponds to a discounting factor appearing in the payoff/obstacle process.

The resulting convergence rates are of the form $O(n^{-\frac{1}{2}})$ between $(\bar{U}_{t_k^n}^n)_{0 \leq k \leq n}$ and $(U_{t_k^n}^n)_{0 \leq k \leq n}$ and, under a quasi-convexity assumption (in the space variable) on f , $O(n^{-1})$ between $(U_{t_k^n}^n)_{0 \leq k \leq n}$ and $(U_{t_k^n}^n)_{0 \leq k \leq n}$. This holds for various type of convergence (on compacts set with respect to x or in $L^p(\mathbb{P})$).

Conversely, we must of course emphasize that in low dimension (say $d \leq 3$), the numerical strategy is the exact converse of what precedes: one relates the optimal stopping theorem to the parabolic variational inequality and implement a deterministic solver based on finite difference or finite elements/volume methods. So is the case for the seminal paper on the computation of American Put option in a Black-Scholes model, see [37] (see also [74] for exchange options). For an overview of *PDE* methods for option pricing, we refer to [1].

2 Optimal vector quantization

As emphasized in what precedes, whatever the application fields are, we need to have “good” and, if possible, “optimal”, quantization grids at various levels N . This section is devoted to the existence of optimal quantizers (*via* the proof of Proposition 1.1(b)) and their properties as well as the numerical methods to compute them.

⁴When $d = 1$ an exact (and efficient) simulation method has been devised for diffusion processes in [9]; unfortunately it deeply depends on the scalar feature of the diffusion.

2.1 Existence of optimal quantization grids (proof of Proposition 1.1(a))

First assume that $p \in (0, +\infty)$ and $X \in L^p_{\mathbb{R}^d}(\mathbb{P})$. We will proceed by induction on the level N . First we note that, for every level $N \geq 1$, the L^p -mean quantization error function defined by

$$(x_1, \dots, x_N) \mapsto \left\| \min_{1 \leq i \leq N} |X - x_i| \right\|_{L^p(\mathbb{P})}$$

is clearly 1-Lipschitz continuous with respect to the ℓ^∞ -norm on $(\mathbb{R}^d)^N$ defined by $|(x_1, \dots, x_N)|_{\ell^\infty} := \max_{1 \leq i \leq N} |x_i|$. This is a straightforward consequence of Minkowski's inequality and the more elementary inequality $|\min_{1 \leq i \leq N} a_i - \min_{1 \leq i \leq N} b_i| \leq \max_{1 \leq i \leq N} |a_i - b_i|$. As a consequence, the L^p -distortion function defined for every $x_1, \dots, x_N \in (\mathbb{R}^d)^N$ by

$$\mathcal{G}_{p,N}(x_1, \dots, x_N) = \left\| \min_{1 \leq i \leq N} |X - x_i| \right\|_{L^p(\mathbb{P})}^p$$

is continuous.

If $p \in (0, 1]$, on directly shows that $\mathcal{G}_{p,N}$ is p -Hölder continuous.

▷ $N = 1$. The non-negative continuous function $\mathcal{G}_{p,1}$ clearly goes to $+\infty$ as $|x_1| \rightarrow +\infty$. Hence, $\mathcal{G}_{p,1}$ attains a minimum at a so-called L^p -median $x^{(1)}$ (which is clearly unique when $p > 1$ by a strict convexity argument). So $\{x^{(1)}_1\}$ is an optimal quantization grid at level 1.

▷ $N \Rightarrow N + 1$. Assume there exists $x^{(N)} \in (\mathbb{R}^d)^N$ such that $\mathcal{G}_{p,N}(x^{(N)}) = \min_{(\mathbb{R}^d)^N} \mathcal{G}_{p,N}$. Set $\Gamma^{(N)} = \{x^{(N)}_i, i = 1, \dots, N\}$. Then, either $\text{supp}(\mu) \setminus \Gamma^{(N)} = \emptyset$ and any $N + 1$ -tuple of $(\mathbb{R}^d)^N$ which “exhausts” the grid $\Gamma^{(N)}$ makes the function $\mathcal{G}_{p,N+1}$ equal to 0 which is its lowest possible value, or there exists $\xi_{N+1} \in \text{supp}(\mu) \setminus \{x^{(N)}_i, i = 1, \dots, N\}$.

In the second case, let $\Gamma^* = \Gamma^{(N)} \cup \{\xi_{N+1}\}$ and let $(C^*_i(\Gamma^*))_{1 \leq i \leq N+1}$ be an induced Voronoi partition where $\mathring{C}_{N+1}(\Gamma^*)$ is the Voronoi cell of ξ_{N+1} . As $\xi_{N+1} \notin \Gamma^{(N)}$, it is clear that $\mathring{C}_{N+1}(\Gamma^*) \neq \emptyset$ and that $|X - \xi_{N+1}| < \min_{1 \leq i \leq N} |X - x^{(N)}_i|$ on the interior of this cell. Furthermore, $\mathbb{P}(X \in C(\Gamma^*)_{N+1}) = \mu(\mathring{C}_{N+1}(\Gamma^*)) > 0$ since $\xi_{N+1} \in \mathring{C}_{N+1}(\Gamma^*)$ and ξ_{N+1} lies in the support of μ . Note that everywhere on $(\mathbb{R}^d)^N$, one has $|X - \xi_{N+1}| \wedge \min_{1 \leq i \leq N} |X - x_i| \leq \min_{1 \leq i \leq N} |X - x_i|$, so that, combining both inequalities yields

$$\lambda_{N+1} = \mathbb{E}(|X - \widehat{X}^{\Gamma^*}|^p) = \mathbb{E}(|X - \xi_{N+1}|^p \wedge \min_{1 \leq i \leq N} |X - x_i|^p) < \mathbb{E}(\min_{1 \leq i \leq N} |X - x_i|^p) = e_{p,N}(X)^p.$$

Hence, the set

$$K_{N+1} = \left\{ x \in (\mathbb{R}^d)^N : \mathcal{G}_{p,N}(x) \leq \lambda_{N+1} \right\}$$

is non-empty since it contains all the $N + 1$ -tuples which “exhaust” the elements of Γ^* and closed since $\mathcal{G}_{p,N}$ is continuous. In fact, we will show that it is also a bounded subset of $(\mathbb{R}^d)^N$. Let $x(k) = (x(k)_1, \dots, x(k)_{N+1})$, $k \in \mathbb{N}$, be a K_{N+1} -valued sequence of $N + 1$ -tuples. Up to at most $N + 1$ extractions, one may assume without loss of generality that there exists a subset $I \subset \{1, \dots, N + 1\}$ such that for every $i \in I$, $x_i(k) \rightarrow x_i(\infty) \in \mathbb{R}^d$ and for every $i \notin I$, $|x_i(k)| \rightarrow +\infty$. By a straightforward application of Fatou's Lemma

$$\liminf_k \mathcal{G}_{p,N+1}(x(k)) \geq \liminf_k \left\| \min_{i \in I} |X - x_i(\infty)| \right\|_{L^p(\mathbb{P})}^p \geq e_{p,|I|}(X)^p.$$

The fact that the sequence $(x(k))_{k \in \mathbb{N}}$ is K_{N+1} -valued implies that $e_{p,|I|}(X) \leq \lambda_{N+1} < e_N(X)$. In turn, this implies that $|I| = N + 1$ *i.e.* the sequence of $N + 1$ -tuples $(x(k))_{k \geq 0}$ is bounded. As a

consequence, the set K_{N+1} is compact and the function $\mathcal{G}_{p,N+1}$ attains a minimum over K_{N+1} which is obviously its absolute minimum. \square

Remarks. • The proof of Claim (b) and (c) are as follows: if $N \geq 2$ and $\mathbb{P}(PX \in C_i(\Gamma^{(N)})) = 0$ for some index i , then $e_{p,N}(X) = e_{p,N-1}(X)$ which is impossible by the above proof if $\text{supp}(\mu)$ has at least N points. Moreover, if $(z_N)_{N \geq 1}$ is an everywhere dense sequence in \mathbb{R}^d , then $0 \leq e_{p,N}(X) \leq e_p(\{z_1, \dots, z_N\}) \rightarrow 0$ as $N \rightarrow +\infty$ by the Lebesgue dominated convergence theorem.

• This existence result admits many extensions, in particular in infinite dimension when \mathbb{R}^d is replaced by a separable Hilbert space or, more generally, a reflexive Banach space. It holds true for L^1 -spaces as well (see [34] or Section 2.3.2 for a brief introduction to *functional quantization*).

• When $d \geq 2$, $\text{argmin} \mathcal{G}_{p,N}$ is never reduced to a single N -tuple, simply because $\text{argmin} \mathcal{G}_{p,N}$ is left stable under the action of the permutations of $\{1, \dots, N\}$. Even from a geometrical viewpoint, as soon as $d \geq 2$, uniqueness of the corresponding quantization *grid* usually fails, *e.g.* because of the transformations leaving the distribution μ of X invariant. So is the case for the normal distribution $\mathcal{N}(0; I_d)$ which is invariant by all orthogonal transforms. But there are also examples (see [32]) for which optimal grids at level N do not even make up a “connected” set.

However, in 1-dimension, it has been proved (see *e.g.* [38]) that, as soon as μ is absolutely continuous with a log-concave density, there exists exactly one optimal quantizer at level N (characterized by its stationarity, see the next section). Such distributions recalled *strictly unimodal*.

2.2 Stationary quantization grid

Throughout this section, we still consider a random vector $X : (\Omega, \mathcal{A}, \mathbb{P}) \rightarrow \mathbb{R}^d$ with distribution μ on $(\mathbb{R}^d, \mathcal{B}(\mathbb{R}^d))$.

Definition 2.1. A (quantization) grid $\Gamma = \{x_1, \dots, x_N\} \subset \mathbb{R}^d$ of size N is μ -stationary if the following two conditions are satisfied

$$\left\{ \begin{array}{l} (i) \text{ } \mu\text{-negligibility of the boundary of the Voronoi diagram : } \mu\left(\bigcup_{1 \leq i \leq N} \partial C_i(\Gamma)\right) = 0. \\ (ii) \text{ Self-consistency of the centroids : } \forall i \in \{1, \dots, N\}, x_i = \frac{\int_{C_i(\Gamma)} \xi \mu(d\xi)}{\mu(C_i(\Gamma))}. \end{array} \right.$$

Note that item (ii) is equivalent to

$$\hat{X}^\Gamma = \mathbb{E}(X \mid \hat{X}^\Gamma). \quad (2.32)$$

We will see further on in Section 3.1 (see Corollary 3.1 and the comments that follow) that L^2 -optimal grids are always stationary since they satisfy condition (i) (see Theorem 4.3, p.38, in [32]), and are consequently critical points of the quadratic distortion function $\mathcal{G}_{2,N}$ which implies condition (ii).

Note that almost all numerical algorithms devised to search for (at least locally) optimal quantizers at a given level N are based on this stationary property (see Section 3).

Remark. This property is important for applications but is unfortunately satisfied by few quantizers. A new notion of quantization, called *dual quantization* has been recently developed (see [61] for a theoretical introduction and [60, 62] for applications to Numerical Probability) in which a reverse stationarity property is satisfied by all dual quantizers. Typically for dual quantization, one has

$$X = \mathbb{E}(\hat{X}^{\Gamma, \text{dual}} \mid X).$$

This dual quantization requires the introduction of an exogenous noise and relies on the Delaunay triangulation rather than on the Voronoi diagram (hence its name “dual”).

2.2.1 Application to quantization based cubature formula (II): second order

Proposition 2.1. *Let Γ be a μ -stationary quantizer and let $X : (\Omega, \mathcal{A}, \mathbb{P}) \rightarrow \mathbb{R}^d$ be a μ -distributed random vector such that $\mathbb{E}|X|^{1+\alpha} < +\infty$ with distribution μ with moment $1 + \alpha$. Let $F : \mathbb{R}^d \rightarrow \mathbb{R}$ be a \mathcal{C}^1 function with an α -Hölder gradient ∇F . We denote by $[\nabla F]_\alpha$ its α -Hölder ratio. Then*

$$\|E(F(X) | \hat{X}^\Gamma) - F(\hat{X}^\Gamma)\|_1 \leq [\nabla F]_\alpha \|X - \hat{X}^\Gamma\|_{L^{1+\alpha}(\mathbb{P})}^{1+\alpha}$$

so that, by taking expectation,

$$|\mathbb{E}F(X) - \mathbb{E}F(\hat{X}^\Gamma)| \leq [\nabla F]_\alpha \|X - \hat{X}^\Gamma\|_{L^{1+\alpha}(\mathbb{P})}^{1+\alpha} \quad (2.33)$$

In particular, if ∇F is Lipschitz continuous

$$|\mathbb{E}F(X) - \mathbb{E}F(\hat{X}^\Gamma)| \leq [\nabla F]_{\text{Lip}} \|X - \hat{X}^\Gamma\|_{L^2(\mathbb{P})}^2.$$

Remark. Since we know from Claim (c) in Proposition 1.1 that $e_{2,N}(X) \downarrow 0$ as $N \rightarrow +\infty$, it is clear that if we consider optimal quadratic (hence stationary) grids $\Gamma^{(N)}$ satisfying $e_{2,N}(X) = \|X - \hat{X}^{\Gamma^{(N)}}\|_{L^2(\mathbb{P})}$ which implies that $\|X - \hat{X}^{\Gamma^{(N)}}\|_{L^2(\mathbb{P})}^{1+\alpha} = o(\|X - \hat{X}^{\Gamma^{(N)}}\|_{L^2(\mathbb{P})})$ as $N \rightarrow +\infty$. So, the error bounds in the above cubature formulas become infinitely smaller than those obtained in Section 1.3.2. Moreover, a sharp convergence rate of convergence for $e_{2,N}(X)$ is proved in Section 2.3 below (Theorem 2.1, Zador's Theorem).

Proof. It follows from a second order Taylor expansion that

$$|F(X) - F(\hat{X}^\Gamma) - (\nabla F(\hat{X}^\Gamma)|X - \hat{X}^\Gamma)| \leq [\nabla F]_\alpha |X - \hat{X}^\Gamma|^{1+\alpha}.$$

The stationarity property reads $\hat{X}^\Gamma = \mathbb{E}(X | \hat{X}^\Gamma)$ and, as $\nabla F(\hat{X}^\Gamma)$ is $\sigma(\hat{X}^\Gamma)$ -measurable, we obtain

$$\mathbb{E}\left((\nabla F(\hat{X}^\Gamma)|X - \hat{X}^\Gamma) | \hat{X}^\Gamma\right) = \left(\nabla F(\hat{X}^\Gamma) \underbrace{\mathbb{E}(X - \hat{X}^\Gamma) | \hat{X}^\Gamma}_{=0}\right) = 0. \quad \square$$

2.2.2 Application to convex functions

If $F : \mathbb{R}^d \rightarrow \mathbb{R}$ is convex and $X, F(X) \in L^1(\mathbb{P})$, then for every stationary quantization grid, one has

$$\mathbb{E}F(\hat{X}^\Gamma) = \mathbb{E}F\left(\mathbb{E}(X | \hat{X}^\Gamma)\right) \leq \mathbb{E}\left(\mathbb{E}(F(X) | \hat{X}^\Gamma)\right) = \mathbb{E}F(X).$$

This shows that quantization based cubature formulas provide lower bounds for the true expectation when F is convex. It should be noticed, that, one has the reverse inequality by the *dual quantization* based cubature formula

$$\mathbb{E}F(X) \geq \mathbb{E}F(\hat{X}^{\Gamma, \text{dual}})$$

(see [61]) which can be implemented with the same stationary grid Γ .

2.3 Optimal quantization rate

2.3.1 Rate results

This rate is ruled by two results: the first one is asymptotic and is known as Zador's Theorem (see [32]), the second one is non-asymptotic and, in some way, universal.

Theorem 2.1. (a) Zador’s Theorem (asymptotic rate, see [32]). Let $X \in L_{\mathbb{R}^d}^{p+\eta}(\mathbb{P})$ for some $\eta > 0$, with distribution $\mathbb{P}_X = \mu$. Let $|\cdot|$ denote (here) any norm on \mathbb{R}^d . We define $\varphi = \frac{d\mu}{d\lambda_d}$ (where λ_d denotes the Lebesgue measure on $(\mathbb{R}^d, \mathcal{B}(\mathbb{R}^d))$) the density of the non-singular part of μ . Then

$$\lim_n N^{\frac{1}{d}} e_{p,N}(X) = \tilde{J}_{p,d} \|\varphi\|_{L^{\frac{p}{p+d}}(\lambda_d)}^{\frac{1}{p}}$$

where $\tilde{J}_{p,d} = \inf_{N \geq 1} N^{\frac{1}{d}} e_{p,N}(U([0,1]^d)) \in (0, +\infty)$ (depends on the current norm). When this norm is the canonical Euclidean norm on \mathbb{R}^d , one has $\tilde{J}_{2,2} = \sqrt{\frac{5}{18\sqrt{3}}}$ and ⁽⁵⁾

$$\tilde{J}_{p,d} \sim \left(\frac{d}{2\pi e} \right)^{\frac{1}{2}} \quad \text{as } d \rightarrow +\infty. \quad (2.34)$$

(b) Extended Pierce’s Lemma (non-asymptotic rate, see [47]). Let $p, \eta > 0$. There exists a real constant $\kappa_{d,p,\eta} \in (0, +\infty)$ such that, for every \mathbb{R}^d -valued random vector $X : (\Omega, \mathcal{A}, \mathbb{P}) \rightarrow \mathbb{R}^d$,

$$\forall N \geq 1, \quad e_{p,N}(X) \leq \kappa_{d,p,\eta} \sigma_{p+\eta}(X) N^{-\frac{1}{d}} \quad (2.35)$$

where, for every $r \in (0, +\infty)$, $\sigma_r(X) = \inf_{a \in \mathbb{R}^d} \|X - a\|_{L^r(\mathbb{P})}$ denotes the L^p -standard deviation of X .

Claim (a), known as Zador’s Theorem, was first established in [75] for the uniform distribution on the unit hypercube $[0,1]^d$, using a self-similarity argument “à la Hammersley”. The extension to more general distributions is due to Bucklew and Wise in [15], with a gap in the proof for non-compactly supported distributions. This gap was filled in [32], Chapter II, Theorem 6.2, p.78, where the most general case (“ L^{p+} ”-integrable random vectors) has been finally rigorously established.

When μ is purely singular, the above result remains true but the above asymptotics is not the right one since the limit in this normalization is 0. Other asymptotics can emerge *e.g.* for (uniform) distributions on fractal sets, leading to the definition of a *quantization dimension* (see again [32], Chapter III, for an introduction to quantization on fractal sets).

2.3.2 Comments and first applications

▷ **Comments.** (a) A natural question is to compare optimal quantization methods with “standard” square grid methods on $[0,1]^d$ when $N = m^d$, $m \in \mathbb{N}^*$ (such values of N are the only ones for which it is possible to implement the square grid cubature formulas). Let

$$\Gamma_d(m) = \prod_{\ell=1}^d \left(\frac{2i_\ell - 1}{2m} \right)_{1 \leq i_\ell \leq m}$$

be a hyper-cubic “product quantization” grid. This grid induces, when $p = 2$, owing to the Pythagorus Theorem and the formula (1.4) for the uniform distribution $U([0,1])$ on the unit interval, a mean quadratic quantization error given by

$$e_{2,N}(\Gamma_d(m), U([0,1]^d))^2 = d \left(\frac{1}{2\sqrt{3}m} \right)^2 = \frac{d}{12m^2}$$

so that

$$e_{2,N}(\Gamma_d(m), U([0,1]^d)) = \sqrt{\frac{d}{12}} N^{-\frac{1}{d}}.$$

⁵where $a_k \sim b_k$ means that $a_k = u_k b_k$ with $\lim_k u_k = 1$.

If we consider that d is large enough so that, by (2.34), $\tilde{J}_{p,d} \approx \left(\frac{d}{2\pi e}\right)^{\frac{1}{2}}$, one derives by the above Zador Theorem,

$$e_{2,N}(U([0,1]^d)) \approx \sqrt{\frac{d}{2\pi e}} N^{-\frac{1}{d}} \approx \sqrt{\frac{d}{17.0795}} N^{-\frac{1}{d}}.$$

This shows that, *as d grows to infinity*, the ratio between true optimal and optimal product quantization remains (asymptotically) bounded and, in fact, very close to 1 since $\sqrt{\frac{2\pi e}{12}} \approx 1.1930\dots!$ But the main difference between these two points of view is that optimal quantization grids *do exist for every size/level N* whereas product grids become increasingly sparse in higher dimensions.

(b) If $\Gamma^N = \{x_1^{(N)}, \dots, x_N^{(N)}\}$, $N \geq 1$, denotes a sequence of (L^p, μ) -optimal N -quantizers, we saw in Equation (1.12) that the weighted distribution $\hat{\mu}_N$ of $\hat{X}^{\Gamma(N)}$ weak converges to the original distribution μ of X . But what about the *regular* empirical measures

$$\tilde{\mu}_N = \frac{1}{N} \sum_{i=1}^N \delta_{x_i^{(N)}}, \quad N \geq 1 ?$$

The answer is provided by the *empirical measure theorem* established by Graf & Luschgy in [32] (see Theorem 7.5, p.96) and [21].

Theorem 2.2. *If $X \in L^{p+\eta}(\mathbb{P})$ for some $\eta > 0$, then, with the notations of Zador's Theorem, if $\varphi \neq 0$,*

$$\tilde{\mu}_N \xrightarrow{(w)} \tilde{\mu} = \frac{\varphi^{\frac{d}{d+p}}}{\int_{\mathbb{R}^d} \varphi^{\frac{d}{d+p}} d\lambda_d} \cdot \lambda_d \quad \text{as } N \rightarrow +\infty.$$

where $\xrightarrow{(w)}$ denotes weak convergence of probability measures.

Remark. In fact the theorem holds true for (sub-)sequences of *asymptotically optimal quantizers* in the sense that they satisfy Zador sharp rate).

▷ **A brief look back at Information theory.** Let $X : (\Omega, \mathcal{A}, \mathbb{P}) \rightarrow \mathbb{R}^d$ be a (static) square integrable random vector/signal X with a non-singular distribution μ . We consider an optimal quadratic quantization grid $\Gamma^{(N)}$ of size N for μ . Let $\hat{\mu}_N$ denote the distribution of its optimal quadratic quantization $\hat{X}^{\Gamma^{(N)}}$. We saw in Section 1.2 that the mean transmission cost $\kappa_{\hat{\mu}_N}$, when coded by an appropriate instantaneous code, satisfies the two-sided inequality (1.6)-(1.7) involving the dyadic entropy of $H_2(\hat{\mu}_N)$ of $\hat{\mu}_N$.

▷ *A universal asymptotic bound.* Let $w_i^{(N)} = \hat{\mu}_N(x_i^{(N)})$, $i = 1, \dots, N$, be the weights attached to the distribution $\hat{\mu}_N$. We know, by classical optimization arguments, that

$$H_2(\hat{\mu}_N) = - \sum_{i=1}^N w_i^{(N)} \log_2 w_i^{(N)} \leq \log_2 N$$

so that we derives that $2^{\kappa_{\hat{\mu}_N}-1} \leq N \leq 2^{\kappa_{\hat{\mu}_N}}$. Now, let $\kappa > 0$ be a prescribed mean transmission cost. Plugging this universal bound in (2.1) with $N = \lceil 2^{\kappa-1} \rceil$, we derive that the quadratic mean transmission error $\|X - \hat{X}^{\Gamma_N}\|_{L^2(\mathbb{P})}$ satisfies

$$L^2\text{-mean transmission error}(\kappa) \lesssim \tilde{J}_{2,d} \left\| \varphi \right\|_{L^{\frac{d}{d+2}}(\lambda_d)}^{\frac{1}{2}} 2^{-\frac{\kappa-1}{d}} \quad \text{as } \kappa \rightarrow +\infty.$$

In particular, expressed in terms of quantization level, we get this coarser equivalent

$$-\log_2 \left(L^2\text{-mean transmission error}(N) \right) \sim \frac{\kappa(N)}{d} \quad \text{as } N \rightarrow +\infty.$$

This provides the flavor of Shannon's Source Coding Theorem (for a general formulation and a proof in a more general framework, we refer to [22]).

▷ *A sharper, but heuristic, bound.* It is commonly shared in the Information Theory community (see [29]) that an absolutely distribution μ with a continuous bounded density $\varphi > 0$ satisfies ($\varphi \log \varphi$ is bounded and)

$$w_i^{(N)} \sim c_N \frac{\varphi^{\frac{d}{d+2}}(x_i^{(N)})}{N} \quad \text{as } N \rightarrow +\infty$$

uniformly over the elementary quantizers $x_i^{(N)}$ lying in a fixed compact set, where c_N is a normalizing constant. Partial results in that direction have been recently established in [35] for a wide class of absolutely continuous distributions (including among many others normal distributions, gamma distributions, hyper-exponential distributions).

It follows from the empirical measure theorem (2.2) that

$$\lim_N c_N = \left(\int_{\mathbb{R}^d} \varphi^{\frac{d}{d+2}}(\xi) d\xi \right)^{-1}.$$

If we assume a sharper result, namely $w_i^{(N)} - c_N \frac{\varphi^{\frac{d}{d+2}}(x_i^{(N)})}{N} \rightarrow 0$ as $N \rightarrow +\infty$, uniformly on compact sets, elementary computations based on repeated applications of Theorem 2.2 – the empirical mean theorem – yield that

$$C_\mu = -\lim_N \left(H_2(\hat{\mu}_N) - \log_2 N \right) = \log \left(\int_{\mathbb{R}^d} \varphi^{\frac{2}{d+2}} d\lambda_d \right) + \frac{d}{d+2} \int_{\mathbb{R}^d} \varphi \log_2 \varphi d\lambda_d.$$

Noting that $\int_{\mathbb{R}^d} \varphi^{\frac{2}{d+2}} d\lambda_d = \int_{\mathbb{R}^d} \varphi^{-\frac{d}{d+2}} d\mu$ and applying Jensen's Inequality to the distribution μ and the concave function \log imply that $C_\mu > 0$ (in accordance with the fact that the uniform distribution μ_N^{Unif} over $\{1, \dots, N\}$ or any set of size N has the highest possible entropy equal to $\log_2 N$). This finally yields the slightly sharper bound for the quadratic mean signal transmission error

$$L^2\text{-mean transmission error}(\kappa) \lesssim \tilde{J}_{2,d} \left\| \varphi \right\|_{L^{\frac{d}{d+2}}(\lambda_d)}^{\frac{1}{2}} 2^{\frac{1-C_\mu}{d}} 2^{-\frac{\kappa}{d}} \quad \text{as } \kappa \rightarrow +\infty.$$

▷ **From vector to functional quantization.** Most questions raised in the former sections can be formulated in an infinite dimensional setting where \mathbb{R}^d is replaced by a separable Hilbert space or more generally a (reflexive or not) separable Banach space $(E, |\cdot|_E)$. From a more probabilistic point of view E is often a functional space like $L^2_{\mathbb{R}}([0, T], \lambda)$ or $\mathcal{C}([0, T], \mathbb{R})$. This corresponds to the path space of a bi-measurable stochastic process $(X_t)_{t \in [0, T]}$ defined on a probability space $(\Omega, \mathcal{A}, \mathbb{P})$ so that for every $\omega \in \Omega$, $X(\omega) = (t \mapsto X_t(\omega)) \in E$: viewing things that way makes X an E -valued (infinitely dimensional) random vector. For this reason, the quantization problem in infinite dimension is often known as *functional quantization*. Thus, existence of optimal quantizers can be established in the case of reflexive Banach spaces like $L^p_{\mathbb{R}}([0, T], dt)$, $1 < p < +\infty$, following the proof of Proposition 1.1, using this time a *weak continuity lower semi-continuity* argument (see e.g. [20, 45, ?]). it also holds true for the $L^1_{\mathbb{R}}(dt)$ space, but not in full flu generality for the space $\mathcal{C}([0, T], \mathbb{R})$.

However, no such general rate result as Zador's Theorem is available, but optimal quantization rates (sometimes sharp) can be established for various classes of stochastic processes, including the

(fractional) Brownian motion and the Brownian bridge, scalar Brownian diffusions processes, etc, viewed as random variables having values on their path spaces. We refer to [45, 46, 23, 47, 34] and the references therein for results in that direction. It turns out that in many situations these convergence rates for optimal functional quantization error “lives” in a $(\log N)^{-r}$ scale ($r = \frac{1}{2}$ for the standard Brownian motion and bridge, diffusion processes, $r = H$ for the fractional Brownian motion with Hurst constant H , $r = m + \frac{1}{2}$ for the m -fold integrated Brownian motion, etc).

More generally, when dealing with Gaussian processes this quantization rate is closely related to the rate of decay of the eigenvalues of its covariance operator (Karhunen-Loève eigen-system). For more general stochastic processes, a connection can be made between the mean $L^p([0T], dt)$ -functional quantization rate and the regularity of the mapping $t \mapsto X_t$ from $[0, T]$ to $L^p([0, T], dt)$.

Numerical applications have also been devised, mostly based on the cubature formulas (see below) which can be straightforwardly extended to Hilbert or Banach frameworks (see e.g. [56] for applications to the pricing and hedging of path-dependent options). But we will not go further in that direction in this paper.

2.3.3 Numerical integration (III): rates

Assume $X \in L^2_{\mathbb{R}^d}(\mathbb{P})$ (still with a distribution μ). The above results show that, provided one has access to quadratic optimal quantization grids Γ_N for various levels/sizes, it is possible to produce cubature formulas with respect to μ which have the following properties.

▷ *α -Hölder functions*, $\alpha \in (0, 1]$. An α -Hölder function $F : \mathbb{R}^d \rightarrow \mathbb{R}$ can be integrated using the N -point cubature formula (1.10) with an accuracy (upper-bounded by) $\|X - \hat{X}^{\Gamma_N}\|_{L^1(\mathbb{P})}$ owing to (1.12).

Let $\Gamma^{(N)}$ be an optimal quadratic quantization grid at level N for the distribution μ and that $X \in L^{2+\eta}_{\mathbb{R}^d}(\mathbb{P})$ for some $\eta > 0$. We use that $\|X - \hat{X}^{\Gamma_N}\|_{L^1(\mathbb{P})} \leq \|X - \hat{X}^{\Gamma^{(N)}}\|_{L^2(\mathbb{P})} = e_{2,N}(\mu) \leq C_{d,\mu} N^{-\frac{1}{d}}$ where $C_{d,\mu}$ is a real constant only depending on the dimension d and the $((2 + \eta)$ -pseudo standard deviation of) distribution μ given by (2.35) in Theorem 2.1 (b).

▷ *Locally α -Hölder functions*. Let us come back to the general error bound (1.11) for α -Hölder functions with $\alpha + \beta$ -polynomial growth at infinity. If $\alpha + \beta \geq 1$ then $\frac{\beta}{1-\alpha} \geq 1$ so that, combining stationarity and Jensen’s inequality, we get

$$\|\hat{X}^{\Gamma^{(N)}}\|_{L^{\frac{\beta}{1-\alpha}}(\mathbb{P})} = \|\mathbb{E}(X | \hat{X}^{\Gamma^{(N)}})\|_{L^{\frac{\beta}{1-\alpha}}(\mathbb{P})} \leq \|X\|_{L^{\frac{\beta}{1-\alpha}}(\mathbb{P})}$$

which makes the right hand side of (1.11) only depending on (norms of) X , namely

$$|\mathbb{E} F(X) - \mathbb{E} F(\hat{X}^{\Gamma^{(N)}})| \leq [F]_{\alpha,\beta} C_{d,\mu} \left(1 + 2\|X\|_{L^{\frac{\beta}{1-\alpha}}(\mathbb{P})}^\beta\right) N^{-\frac{\alpha}{d}}.$$

▷ *Functions with α -Hölder gradient*. If F is continuously differentiable on \mathbb{R}^d with an α -Hölder gradient $\alpha \in (0, 1]$ and $X \in L^{2+\eta}_{\mathbb{R}^d}(\mathbb{P})$, note that in the cubature formula (2.33), one has

$$\|X - \hat{X}^{\Gamma^{(N)}}\|_{L^{1+\alpha}(\mathbb{P})} \leq \|X - \hat{X}^{\Gamma^{(N)}}\|_{L^2(\mathbb{P})} = e_{2,N}(\mu) = O(N^{-\frac{1}{d}})$$

since the grid $\Gamma^{(N)}$ is stationary (i.e. satisfies (2.32)) so that

$$|\mathbb{E} F(X) - \mathbb{E} F(\hat{X}^{\Gamma_N})| \leq C_{d,\mu} [\nabla F]_\alpha N^{-\frac{1+\alpha}{d}}. \quad (2.36)$$

This last result somewhat extends the one established in [50] for compactly supported absolutely continuous distributions μ on \mathbb{R}^d .

▷ *Numerical tests*. For various numerical tests carried out on these cubature formulas, including the spatial Richardson-Romberg extrapolation not developed here, we refer to [56] and the survey [59].

2.3.4 Application of (quadratic) optimal quantization to optimal stopping problems

Assume that the characteristics of the *quantization tree* $(\Gamma_k, w^k)_{0 \leq k \leq n}$ related to the Markov chain $(X_k)_{0 \leq k \leq n}$ is made up with grids such that $\Gamma_k = \Gamma_k^{(N_k)}$ of size N_k is L^2 -optimal for the marginal distribution μ_k of X_k at every time $k \in \{0, \dots, n\}$. Let

$$N = N_0 + \dots + N_n$$

denote the total number of points (or nodes) used in the quantization tree.

If one sets $N_k = \bar{N} := \frac{N}{n+1}$, (or $\frac{N-1}{n}$ if X_0 is deterministic), it follows from the upper-bound (1.25) that the (optimally) quantized approximation of the Snell envelope related to the optimal stopping problem (1.31) and their related *réduites* satisfy

$$|\mathbb{E} \hat{u}_0(\hat{X}_0^{\Gamma_0}) - \mathbb{E} u_0(X_0)| \leq \|\hat{U}_0 - U_0\|_{L^2(\mathbb{P})} \leq C_X \sqrt{n} \bar{N}^{-\frac{1}{d}}.$$

In the special case where the Markov chain is the Euler scheme $(\bar{X}_{t_k^n})_{0 \leq k \leq n}$ with step $\frac{T}{n}$ of a diffusion process with drift b and diffusion coefficient σ , then the constant $C_X = C_{b,\sigma,T}$ does not depend on the time discretization parameter n . In particular, if $X_0 = x_0 \in \mathbb{R}^d$ (with the obvious notations u^n and \hat{u}^n) we have

$$|\hat{u}_0^n(x_0) - u_0^n(x_0)| \leq C_{b,\sigma,T} (N-1)^{-\frac{1}{d}} n^{\frac{1}{d} + \frac{1}{2}}.$$

Although we will not discuss this point here in details, we must have in mind that the time discretization error bounds established in [2] behave under Lipschitz assumption on b, σ and f (in x uniformly in $t \in [0, T]$) is $O(n^{-\alpha})$ with $\alpha = \frac{1}{2}$ when the discrete time approximating Markov chain is the Euler scheme. When the discrete time approximating Markov chain is the sampled process itself $(X_{t_k^n})_{0 \leq k \leq n}$ and the function f is *quasi-convex* with linear growth in x uniformly in $t \in [0, T]$, the rate holds with $\alpha = 1$ (this class of functions includes convex functions f with linear growth in x and functions having a Lipschitz continuous gradient $\nabla_x f$ (in x) uniformly in t in both cases).

In fact, especially in a diffusion framework, it is important for practical purposes to optimize the quantization tree, especially the sizes N_k of the grids, subject to the above global constraint $\sum_{0 \leq k \leq n} N_k = N$ by taking advantage of the non asymptotic bound (2.35) for the mean quadratic quantization error *i.e.*

$$\min_{N_0 + \dots + N_n = N} \sum_{k=0}^n N_k^{-\frac{2}{d}} \|\bar{X}_{t_k^n}^{n,x}\|_{L^{2+\eta}(\mathbb{P})}^2$$

(with the additional constraint that all the N_k s are non-zero positive integers). In practice, $\|\bar{X}_{t_k^n}^n\|_{L^{2+\eta}(\mathbb{P})}$ is not known explicitly and one may replace this quantity by its classical upper bound, atypically $\|\bar{X}_{t_k^n}^{n,x}\|_{2+\eta} \leq e^{C_{b,\sigma,T} t_k^n} (1 + \|X_0\|_{L^{2+\eta}(\mathbb{P})})$ which holds true as soon as both functions b and σ satisfy a linear growth assumption (in x , uniformly in $t \in [0, T]$): this follows from (1.19) after integrating the starting value with respect to the distribution of X_0 (see [11, 65] among others for details). This (approximately) leads to

$$N_k = \left\lfloor \frac{a_k^{\frac{2d}{d+2}}}{\sum_{\ell=0}^n a_\ell^{\frac{2d}{d+2}}} N \right\rfloor \vee 1,$$

where a_k is a known upper-bound of $\|\bar{X}_{t_k^n}^{n,x}\|_{L^{2+\eta}(\mathbb{P})}$ for every $k = 0, \dots, n$. The resulting bound is of the form

$$|\hat{u}_0^n(x_0) - u_0^n(x_0)| \leq C_{b,\sigma,T} N^{-\frac{1}{d}} \left(\sum_{k=0}^n a_k^{\frac{2d}{d+2}} \right)^{\frac{1}{2} + \frac{1}{d}}.$$

▷ *Numerical tests*: Extensive numerical experiments on quantization based schemes for pricing American options, but also non-linear filtering, stochastic control have been carried out, including the introduction and analysis of a Richardson-Romberg extrapolation method which dramatically improves the convergence rate. For more details we refer to [2, 3, 4, 62] (the last reference is devoted to both Voronoi and dual vector quantization applied to the pricing of American style derivatives) and [59, 66, 18] (for non-linear filtering, stochastic control applied to Finance) and the references therein.

3 How to get optimal (quadratic) quantization?

The foundation of almost every numerical method devoted to the computation of optimal quantizers is to establish the differentiability of the L^p -distortion function $\mathcal{G}_{p,N}$ (at level N). In what follows $\partial A = \bar{A} \setminus \overset{\circ}{A}$ denotes the boundary of $A \subset \mathbb{R}^d$.

3.1 Differentiability of the (quadratic) distortion function

Proposition 3.1. *Let $X \in L^2_{\mathbb{R}^d}(\mathbb{P})$ with distribution $\mathbb{P}_X = \mu$. If $x = (x_1, \dots, x_N) \in (\mathbb{R}^d)^N$ has pairwise distinct components (i.e. $x_i \neq x_j$, $i \neq j$) and $\mathbb{P}(X \in \bigcup_{1 \leq i \leq N} \partial C_i(x)) = 0$ (with an obvious abuse of notation concerning the Voronoi cells), the L^2 -distortion function $\mathcal{G}_{2,N}$ is (finite and) differentiable at x and*

$$\nabla \mathcal{G}_{2,N}(x) = 2 \left(\int_{C_i(x)} (x_i - \xi) \mu(d\xi) \right)_{1 \leq i \leq N} = 2 \left(\mathbb{E} \mathbf{1}_{\{X \in C_i(x)\}} (x_i - X) \right)_{1 \leq i \leq N}. \quad (3.37)$$

Note that the μ -stationarity property is also known in the (statistical) literature as the *self-consistency* property and such quantizers as *self-consistent prototypes* (see [73]). Moreover, this also gave rise to a new terminology (borrowed from statistics) to emphasize that each x_i is the μ -centre of mass of its Voronoi cell: one speaks of the points x_i as the *centroids* of their Voronoi cells.

Proof. First note that, as the N -tuple x has pairwise distinct components, all the interiors $\overset{\circ}{C}_i(x)$, $i = 1, \dots, N$, of the Voronoi cells induced by x are non-empty. For every $\xi \notin \bigcup_{1 \leq i \leq N} \partial C_i(x)$, i.e. $\mu(d\xi)$ -a.s., one has for every $i \in \{1, \dots, N\}$,

$$\frac{\partial}{\partial x_i} \left(\min_{1 \leq j \leq N} |x_j - \xi|^2 \right) = \mathbf{1}_{\{\xi \in \overset{\circ}{C}_i(x)\}} \frac{\partial |x_i - \xi|^2}{\partial x_i} = 2 \mathbf{1}_{\{\xi \in \overset{\circ}{C}_i(x)\}} (x_i - \xi).$$

On the other hand, for every $x, x' \in (\mathbb{R}^d)^N$, the function $\mathcal{G}_{2,N}$ is locally Lipschitz continuous since

$$\begin{aligned} |\mathcal{G}_{2,N}(x') - \mathcal{G}_{2,N}(x)| &\leq \int_{\mathbb{R}^d} \left| \min_{1 \leq j \leq N} |x_j - \xi| - \min_{1 \leq j \leq N} |x'_j - \xi| \right| \left(\min_{1 \leq j \leq N} |x_j - \xi| + \min_{1 \leq j \leq N} |x'_j - \xi| \right) \mu(d\xi) \\ &\leq \max_{1 \leq j \leq N} |x_j - x'_j| \int_{\mathbb{R}^d} \left(\max_{1 \leq j \leq N} (|x_j| + |\xi|) + \left(\min_{1 \leq j \leq N} |x_j| + |\xi| \right) \right) \mu(d\xi) \\ &\leq C_\mu |x - x'|_\infty (1 + |x|_\infty + |x'|_\infty). \end{aligned}$$

As a consequence, $\mathcal{G}_{2,N}$ is differentiable at x by the local interchange Lebesgue differentiation Theorem. \square

Remarks. • In fact, when $p > 1$, the L^p -distortion function (with respect to an Euclidean norm) is also differentiable at N -tuple having pairwise distinct components with gradient

$$\nabla \mathcal{G}_{p,N}(x) = p \left(\int_{C_i(x)} \frac{x_i - \xi}{|x_i - \xi|} |x_i - \xi|^{p-1} \mu(d\xi) \right)_{1 \leq i \leq N} = p \left(\mathbb{E} \left(\mathbf{1}_{\{X \in C_i(x)\}} \frac{x_i - X}{|x_i - X|} |x_i - X|^{p-1} \right) \right)_{1 \leq i \leq N}.$$

An extension to the case $p \in (0, 1]$ does exist under appropriate continuity and integrability assumptions on the distribution μ so that $\mu(\{a\}) = 0$ for every a and the function $a \mapsto \int_{\mathbb{R}^d} |\xi - a|^{p-1} \mu(d\xi)$ remains bounded on compact sets of \mathbb{R}^d . More generally, a differentiation result exist for *strictly convex smooth* norms (see Lemma 2.5, p.28 in [32]).

This leads to the following corollary which is the starting point of all numerical methods to compute optimal (or at least locally optimal) quantizers.

Corollary 3.1. *Let $X \in L^2_{\mathbb{R}^d}(\mathbb{P})$ with distribution μ . Any grid $\Gamma^{(N)}$ attached to an N -tuple $x^{(N)}$ which minimizes the quadratic distortion function $\mathcal{G}_{2,N}$ is a stationary quantizer (at level $\text{card}(\Gamma^{(N)}) \leq N$). By “attached” we mean that $\Gamma^{(N)} = \{x_i^{(N)}, 1 \leq i \leq N\}$.*

(b) *Any grid Γ_N attached to a critical point $x^{(N)}$ of $\mathcal{G}_{2,N}$ and whose induced Voronoi partition has a μ -negligible boundary is a stationary quantizer at level (at most) N .*

Its main consequence is the following: if $\text{card}(\text{supp}(\mu)) \geq N$, any optimal grid has full size N by Proposition 1.1(b) and can be reduced, up to a permutation, to an N -tuple $x^{(N)}$. Moreover, owing to Theorems 4.1 and 4.2 in [32] (p.37-38), we know that $\mu(\bigcup_{1 \leq i \leq N} \partial C_i(x)) = 0$ and $\mu(C_i(x^{(N)})) > 0$,

$i = 1, \dots, N$, i.e. the boundaries of its Voronoi partition is μ -negligible. Then, one easily checks that $x^{(N)}$ is in fact a both global and local minimum of $\mathcal{G}_{2,N}$ and $\mathcal{G}_{2,N}$ is differentiable at $x^{(N)}$ and

$$\nabla \mathcal{G}_{2,N}(x^{(N)}) = 0$$

i.e.

$$\forall i \in \{1, \dots, N\}, \quad \int_{C_i(x^{(N)})} (x_i - \xi) \mu(d\xi) = 0$$

or equivalently

$$x_i^{(N)} = \frac{\int_{C_i(x^{(N)})} \xi \mu(d\xi)}{\mu(C_i(x^{(N)}))} = \mathbb{E}(X | X \in C_i(x^{(N)}))$$

which in turn can be rewritten

$$\hat{X}^{\Gamma^{(N)}} = \mathbb{E}(X | \hat{X}^{\Gamma^{(N)}}) \quad \text{where} \quad \Gamma^{(N)} = \{x_i^{(N)}, i = 1, \dots, N\}. \quad (3.38)$$

3.2 Competitive Learning Vector Quantization

The Competitive Learning Vector Quantization (CLVQ) is a *stochastic gradient descent* deriving from the quadratic distortion $\mathcal{G}_{2,N}$, viewed as a potential function to be minimized. In a deterministic approach, the associated gradient descent is a zero search of its gradient $\nabla \mathcal{G}_{2,N}$. It formally reads

$$x(k+1) = x(k) - \gamma_{k+1} \nabla \mathcal{G}_{2,N}(x(k)), \quad x(0) \in \left(\text{Hull}(\text{supp}(\mu)) \right)^N, \quad (3.39)$$

where $\text{Hull}(\text{supp}(\mu))$ denotes the *closed* convex hull of the support of the distribution μ . The sequence $(\gamma_k)_{k \geq 1}$ is a sequence of positive *step parameters* satisfying the so-called *decreasing step assumptions*

$\sum_{k \geq 1} \gamma_k = +\infty$ and $\sum_{k \geq 1} \gamma_k^2 < +\infty$. When (or if) $\nabla \mathcal{G}_{2,N}$ is itself differentiable (enough) one can replace this step γ_{k+1} by the inverse of the Hessian of $\mathcal{G}_{2,N}$, leading to the classical Newton-Raphson procedure (opening the door to many of its variants like Levenberg-Markardt algorithm, etc).

The procedure is (mathematically) well-defined if μ assigns no mass to hyperplanes and $x(0)$ has pairwise distinct components. Indeed, when these conditions are fulfilled, one shows that $x_i(k+1)$ lies in the interior of the Voronoi cell of $x_i(k)$ which prevents the components to get stuck as a result of an iteration. Thus, the existence of $\nabla \mathcal{G}_{2,N}$ for the next iteration is preserved.

Unfortunately $\liminf_{\max_i |x_i| \rightarrow +\infty} \mathcal{G}_{2,N}(x) < +\infty$ (one only has $\liminf_{\min_i |x_i| \rightarrow +\infty} \mathcal{G}_{2,N}(x) = +\infty$), hence, the function $\mathcal{G}_{2,N}$ is not a standard *potential function* for optimization purposes and the classical convergence results existing for this class of zero search procedures (and their variant involving the Hessian like Newton-Raphson) do not apply here: the boundedness of the sequence $(x(k))_{k \geq 0}$ cannot be established, except when the distribution μ has a compact support (so that its closed convex hull is compact too).

In fact, there is an upstream problem: beyond dimension $d \geq 2$ or 3, an accurate computation of the components of $\mathcal{G}_{2,N}(x)$ for a given $x \in (\mathbb{R}^d)^N$ becomes too costly to be used in such a recursive procedure as soon as μ has an infinite support (especially if it is atomless/continuous). When computing simple integrals on \mathbb{R}^d , it is well-known that; as the dimension d increases, one has to switch from cubature formulas to Monte Carlo simulations, provided μ can be simulated. For the same reason and, in the same spirit, we will switch from the above (deterministic) gradient descent to its *stochastic* counterpart, taking advantage of its representations (3.37) as an expectation, provided the distribution μ can be simulated at reasonable low cost.

Such a *stochastic gradient descent* formally reads in our setting (the factor 2 is dropped on purpose)

$$x(k+1) = x(k) - \gamma_{k+1} \left(\mathbf{1}_{\{X_{k+1} \in C_i(x)\}} (x_i(k) - X_{k+1}) \right)_{1 \leq i \leq N}, \quad x(0) \in \left(\text{Hull}(\text{supp}(\mu)) \right)^N,$$

$x(0)$ having pairwise distinct components. We simply replaced *mutatis mutandis* the expectation operator \mathbb{E} by a sequence of independent copies $(X_k)_{k \geq 1}$. The iterates $(x(k))_{k \geq 0}$ are now random vectors (though we will still denote them by script letters). When μ assigns no mass to hyperplanes, one shows that the algorithm is well defined *i.e.* no components of $x(k+1)$ get stuck as a result of an iteration. As could be expected from the deterministic framework, and for the same reason induced by the behavior of $\mathcal{G}_{2,N}$ at infinity, it is again – we should say all the more! – hopeless to apply the classical counterpart convergence theorems for stochastic gradient like those established *e.g.* in [26, 39, 8]. Of course, its main asset is that it can be implemented very easily when μ is simulatable. In fact, under various names (*k*-means, Competitive Learning Vector Quantization algorithm, *nuées dynamiques*, etc), it has been widely implemented for years in the communities of Artificial Neural Networks, Data Mining and, more recently, Machine Learning, etc, as a clustering procedure producing prototypes and an automatic classifier (see below).

Note however that when μ is the empirical measure of a dataset $(\xi_k)_{1 \leq k \leq n}$, the standard/original “deterministic” gradient descent (3.39) at a given level $N \ll n$ can always be implemented since each computation of $\nabla \mathcal{G}_{2,N}$ will require finitely many operations involving a known function (the one appearing inside the expectation operator in (3.37)). In this form, the procedure is also known as *Forgy’s algorithm* or *batch k*-means procedure. However, in practice, it can be too much time consuming when the size n of the dataset is too large. As an alternative, practitioners often come back to the above stochastic gradient by *sampling* at random uniformly in the dataset the input datum at each iteration.

When implemented at level $N \geq 1$ for optimal classification purposes, the resulting procedure is designed to – hopefully – converge toward a(n at least local) minimum of $\mathcal{G}_{2,N}$ or equivalently the

quadratic mean quantization error $\sqrt{\mathcal{G}_{N,\epsilon}}$. If so, it produces N *prototypes* of the dataset (the resulting N -quantizer). The classification is finally obtained by assigning to each datum of the dataset the *label* of its Voronoi cell among the prototypes.

At this stage, let us describe more precisely what this *CLVQ* algorithm really does from a geometric point of view at each iteration.

Stochastic Gradient Descent formula (Quantizer updating). Still starting from a starting N -tuple $x(0) = (x_1(0), \dots, x_N(0))$ in $(\text{Hull}(\text{supp}(\mu)))^N$, we update the procedure from k to $k+1$ in a two fold procedure which can be analyzed and interpreted as follows: let $x(k) := (x_1(k), \dots, x_N(k)) \in (\mathbb{R}^d)^N$ be the value of the state vector of the algorithm at the k^{th} iteration (the running vector of “prototypes”).

▷ *Competition phase*: This phase is also known as *the winner selection* stage; it amounts to solving the following *nearest neighbour search*

$$i_{win}(k+1) \in \operatorname{argmin}_{i \in \{1, \dots, N\}} |x_i(k) - X_{k+1}|.$$

When the input X_{k+1} falls in a *general position* (i.e. not on a median hyperplane), $i_{win}(k+1)$ is uniquely defined. In case of conflict, when X_{k+1} falls on a median hyperplane and has subsequently (at least) two nearest neighbours, a rule to determine the winner has to be defined. Picking up $i_{win}(k+1)$ at random among all the nearest neighbours seems the most natural rule. Note that when μ assigns no mass to hyperplanes (e.g. because it is absolutely continuous) this situation \mathbb{P} -a.s. never occurs.

▷ *Learning phase*: During this phase, the current set of prototypes $x(k) = (x_i(k))_{i=1, \dots, N}$ is updated to incorporate the information provided by the input X_{k+1} . As a result the nearest neighbour $x_{i_{win}(k+1)}(k)$ is moved closer to $k+1$ by a dilatation centered at X_{k+1} with a ratio lower than 1. To be more precise

$$\begin{cases} x_{i_{win}(k+1)}(k+1) = \text{Dilat}(X_{k+1}, 1 - \gamma_{k+1})(x_{i_{win}(k+1)}(k)) \\ x_i(k+1) = x_i(k) \text{ for every } i \neq i_{win}(k+1). \end{cases}$$

where $\text{Dilat}(\xi, \rho)$ denotes a dilation centered at ξ with ratio $\rho \in [0, 1]$ defined by

$$\text{Dilat}(\xi, \rho)(u) = \xi + \rho(u - \xi), \quad u \in \mathbb{R}^d.$$

First note that, if for every $k \in \mathbb{N}^*$, the step $\gamma_k \in (0, 1)$ then $x_{i_{win}}(k+1)$ is a *convex combination* of $x_{i_{win}}(k)$ and X_{k+1} . Consequently, as the (pairwise distinct) components of $x(0)$ lie in $\text{Hull}(\text{supp}(\mu))$, a straightforward induction shows that so will be the case of all the iterations $x(k)$, $k \geq 0$.

As a consequence all these clustering procedures (batch or stochastic) are always implemented under the step assumption

$$\forall k \in \mathbb{N}^*, \quad \gamma_k \in (0, 1).$$

One deduces that, if the N -tuple $x(k)$ has pairwise distinct components, this feature is preserved by the *learning* phase. So that the above procedure is well-defined, up to the convention to be made in case of conflict between several components $x_j(k)$ in the competitive phase.

The name of the procedure – Competitive Learning Vector Quantization algorithm – is a synthesis of these two basic phases.

The heuristics, rigorously proved in few situations (e.g. when $d = 1$ and μ has a log-concave density on a bounded interval) is that the procedure *a.s.* converges, toward an at least local minimum of $\mathcal{G}_{2,N}$. But one must have in mind that, as soon as the structural dimension d increases, the “landscape”

of the potential function $\mathcal{G}_{2,N}$ – the quadratic distortion – has many local minima and various kinds of saddle points. For (partial) theoretical results on the convergence of the *CLVQ* algorithm, we may refer to [53] (in the special case where X has a compactly supported distribution) and to [67] for a weak rate of convergence (a Central Limit Theorem under the assumption that the algorithm converges toward the global minimum).

Several L^p -variants have also been investigated more recently, in particular the k -median case corresponding to $p = 1$ (see [16]).

Adaptive on line computation of the “companion parameters”. Assume that the above *CLVQ* procedure *a.s.* converges toward an N -tuple $x^{(N,*)} = (x_1^{(N,*)}, \dots, x_N^{(N,*)})$ having values in $\text{Hull}(\text{supp}(\mu))$. One can compute *on line* the associated weights and the resulting mean quadratic quantization error:

- Weights $w_i^{(N,*)} = \mathbb{P}(\hat{X}^{x^*} = x_i^{(N,*)})$, $i = 1, \dots, N$: for every $i = 1, \dots, N$,

$$w_i[k+1] := (1 - \gamma_{k+1})w_i[k] + \gamma_{k+1}\mathbf{1}_{\{i_{win}=i\}} \xrightarrow{a.s.} w_i^{(N,*)} \quad \text{on the event } \left\{x(k) \rightarrow x^{(N,*)}\right\}.$$

- Quadratic Distortion error $\mathcal{G}_{2,N}(x) = \left\| \min_{1 \leq i \leq N} |X - x_i| \right\|_2$:

$$\mathcal{G}_N[k+1] := (1 - \gamma_{k+1})\mathcal{G}_N[k] + \gamma_{k+1}|x_{i_{win}(k+1)}(k) - X_{k+1}|^2 \xrightarrow{a.s.} \mathcal{G}_{2,N}(x^{(N,*)}) \quad \text{on the event } \left\{x(k) \rightarrow x^{(N,*)}\right\}.$$

Note that, since the “ingredients” involved in the above companion procedures are those used in the competition learning phase, they add (almost) no extra C.P.U. time cost, especially if one has in mind (see below) that the costly part of the algorithm (as well as that of the Lloyd I procedure described below) lies in the *nearest neighbour search* of the “competition phase”. For the convergence of the online adaptive version of the companion procedures, we refer to [2].

In some way the *CLVQ* algorithm can be seen as a Non Linear Monte Carlo Simulation devised to design an optimal skeleton of the distribution μ of X , this skeleton being the distribution of $\hat{X}^{x^{(N,*)}}$ (with an obvious abuse of notation), that is the N -tuple $x^{(N,*)}$ itself and its companion weight vector $(w_i^{(N,*)})_{1 \leq i \leq N}$.

3.3 A fixed point algorithm: Lloyd I procedures

▷ *The original Lloyd I procedure.* This time, we start directly from the stationary Equation (3.38). The idea is to use this identity to devise a fixed point procedure. Let $\Gamma(0) \subset \text{Hull}(\text{supp}(\mu))$ (with N pairwise distinct elements). Then for every integer $k \geq 0$, one updates the current grid $\Gamma(k)$ as follows:

$$\begin{cases} (i) \text{ Centroid updating: } & \tilde{X}^{\Gamma(k+1)} = \mathbb{E}(X \mid \hat{X}^{\Gamma(k)}) = \frac{\mathbb{E}(X \mathbf{1}_{\{X \in C_i(\Gamma(k))\}})}{\mathbb{P}(X \in C_i(\Gamma(k)))}, \\ (ii) \text{ Voronoi cell updating: } & \hat{X}^{\Gamma(k+1)} \leftarrow \tilde{X}^{\Gamma(k+1)}. \end{cases} \quad (3.40)$$

This procedure clearly lives in $\text{Hull}(\text{supp}(\mu))$ by a convexity argument. Note that (i) can re-written (with obvious notations) as

$$x_i(k+1) = \mathbb{E}(X \mid \hat{X}^{\Gamma(k)} = x_i(k)), \quad i = 1, \dots, N.$$

As set, this procedure is a pseudo-algorithm since: it cannot be implemented as long as we do not know explicitly the quantities $\mathbb{E}(X \mathbf{1}_{\{X \in C_i(\Gamma(k))\}})$ and $\mathbb{P}(X \in C_i(\Gamma(k)))$ at each step k .

▷ *Practical implementation: the randomized Lloyd I procedure.*

– When μ is the empirical measure of a dataset, the above procedure can be implemented: one computes the expectation and the probability appearing in the ratio (3.40).

– If the distribution μ has an infinite support (*e.g.* because μ has a density) the situation becomes more involved. When $d = 1$, it is often possible to compute the two quantities of interest which appear in the conditional expectation of (3.40)(i) since both are terms of the ratio are 1-dimensional integrals. This is sometimes still possible in low dimension, say $d = 2$, still using appropriate cubature formulas for numerical integration (see *e.g.* the algorithms available on the website

www.qhull.org

and the references therein). Nevertheless, as d increases, the above procedure becomes rapidly intractable: to compute both expectations in (3.40)(i) there is no alternative to the Monte Carlo method (or Quasi-Monte Carlo). One replaces the distribution of X by the empirical measure of a large M -sample of (independent copies) $(X^m)_{1 \leq m \leq M}$ of X defined a probability space $(\Omega, \mathcal{A}, \mathbb{P})$, namely

$$\mu = \mathbb{P}_X \leftarrow \frac{1}{M} \sum_{m=1}^M \delta_{X^m}(\omega),$$

considering that, for large values of M , both distributions are $\mathbb{P}(d\omega)$ -*a.s.* get close enough. Then phase (i) (centroid updating) becomes $\Gamma(k+1) = \{x_i(k+1, M), i = 1, \dots, N\}$ where

$$(i)_M \equiv x_i(k+1, M) = \frac{\sum_{m=1}^M X^m \mathbf{1}_{\{X^m \in C_i(\Gamma(k))\}}}{\text{card}(\{1 \leq m \leq M, X^m \in C_i(\Gamma(k))\})}, \quad i = 1, \dots, N. \quad (3.41)$$

This algorithm is often called *randomized Lloyd's I algorithm*. Like for the *CLVQ* algorithm, the convergence results for the Lloyd I procedure are still partial, even in its original (deterministic) form (3.40) (see *e.g.* [64]).

Two examples of (nearly) optimal quadratic quantizations are reproduced in Figures 2 and 3. They have been obtained by a hybrid stochastic optimization procedure mixing the randomized Lloyd I algorithm and the *CLVQ* algorithm. Furthermore, it relies on a “splitting approach” that is a level-by-level computation of the grids (see [56] as concerns the normal distribution).

For more details about these numerical stochastic optimization procedures used to produce optimal quantizers at level N , we refer *e.g.* to [8, 56] for *CLVQ*, [38, 24, 64] for (randomized) Lloyd's I procedure or more applied textbooks like [29].

3.4 Nearest neighbor search: how to speed it up...

In both above described procedures – *CLVQ* and randomized Lloyd's I procedures – above, the most time consuming phase is by far the nearest neighbour search which determines the Voronoi cell in which the new input X^{k+1} falls at step $k+1$. This nearest neighbour search is well-known to have an exploding complexity when d and N are large. Its reduction or at least its control is known as a highly challenging problem in computer science.

There are several methods to speed it up, at least in medium dimension. We consider in what follows, either an M -sample $(X^m(\omega))_{m=1, \dots, M}$ obtained by simulation of the distribution μ or a true dataset denoted in both cases by $(\xi_m)_{m=1, \dots, M}$ to alleviate notations.

▷ *Partial Distance Search principle (PDS, Chen).* This idea is quite simple and very efficient: a nearest neighbour search amounts to check, in an Euclidean framework, whether a squared norm $|\xi|^2 = |(\xi^1, \dots, \xi^d)|^2 = (\xi^1)^2 + \dots + (\xi^d)^2$ is lower than a record value, say δ_{rec}^2 .

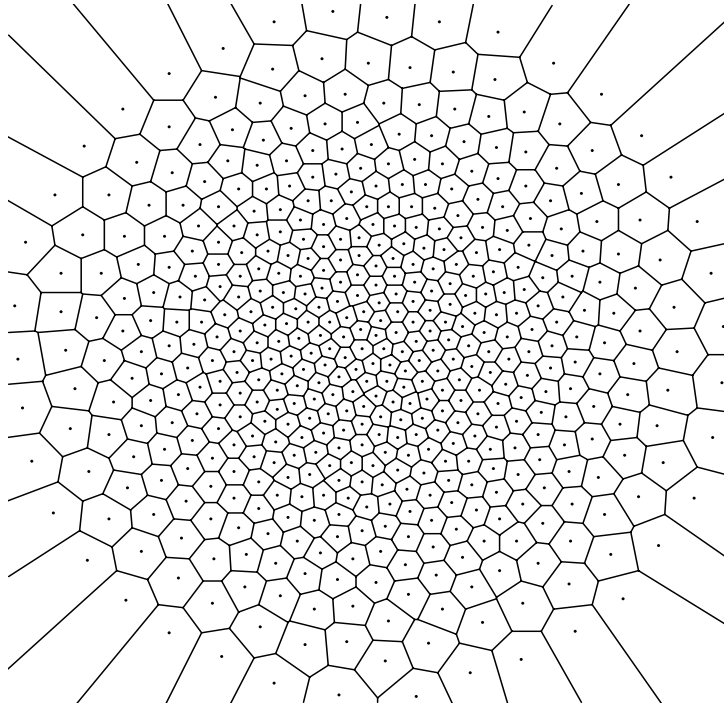


Figure 2: *Optimal N -quantizer ($N = 500$) of the bi-variate Normal distribution depicted with its Voronoi tessellation (with J. Printems).*

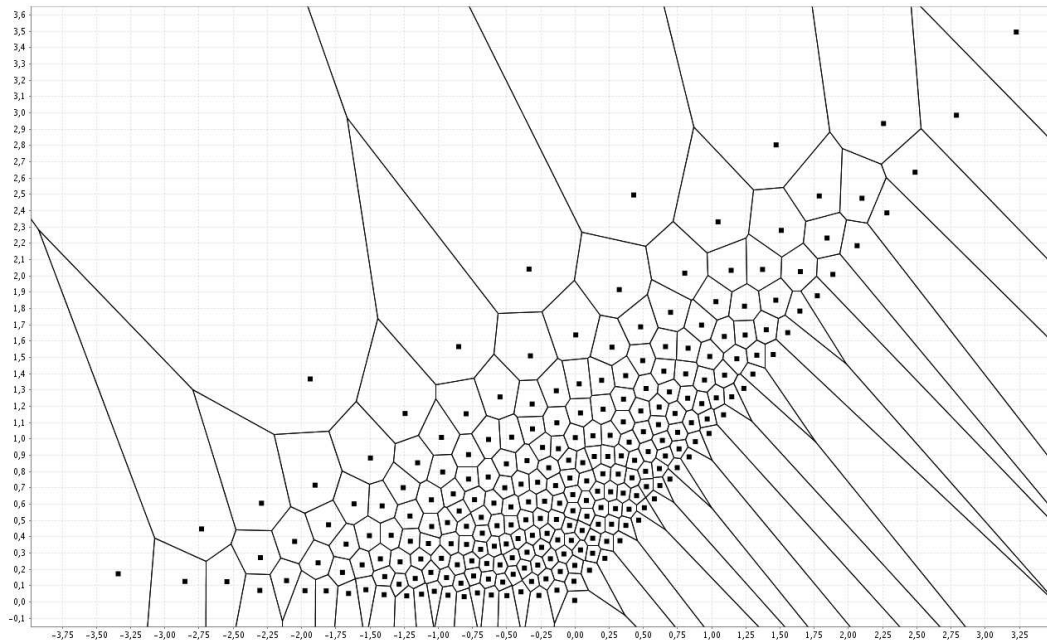


Figure 3: *Optimal N -quantization ($N = 500$) of $(W_1, \sup_{t \in [0,1]} W_t)$ depicted with its Voronoi tessellation, W standard Brownian motion (with B. Wilbertz).*

To test the inequality $|\xi|^2 < \delta_{\text{rec}}^2$, one proceeds by induction on the coordinates as described in **Algorithm 1** below.

Algorithm 1 (Chen’s Partial Distance Search protocol)

```

record = true;
aux = 0;
ℓ = 1
while aux + (ξℓ)2 < δrec2 do
    ℓ := ℓ + 1;
end while
if ℓ = d + 1 then
    record = false;
end if

```

The testing procedure is stopped as soon as the partial computation of the squared norm is higher than the record value. This procedure is known as Chen’s Partial Distance Search protocol. Adaptation to other common norms is straightforward. It can still be improved in medium dimensions, say up to $d = 10$, by storing the data in a tree structure as described below.

▷ *Space partitioning tree* (see [28]). As a first step, one divides the dataset into two subsets of size $\frac{M}{2}$ according to the median of the first coordinate. Then, one divides again each sub-sample following the second coordinate and so on. At each step, the procedure is applied either to a new coordinate or, when the dimension is exhausted, to the one with the highest index. Each leaf of the resulting tree is labelled. The data are coded in the tree by their leaf label and a local index inside its assigned leaf. After this pre-processing phase, whose complexity is $O(M \log M)$, the search cost of a single datum in the tree is $O(\log M)$. It is commonly shared by users that the depth of the tree should be fixed to 7 to get the best compromise. In many situations of interest, this choice seems more or less independent of the size of the dataset and its structure.

▷ *Principal Axis Tree* (McNames, see [49]). The additional improvement brought by this approach lies in a preliminary Principal Component Analysis (PCA) inducing a change of coordinates which make the search more efficient, especially in view of applying the PDS principle: in the new basis induced by the PCA the absolute value of coordinates tends to decrease when the coordinate index increases implying that Chen’s PDS procedure stops sooner in average.

▷ *Rough Self-Quantization* (Corlay, see [17], chapter 1). The underlying idea is completely different and competes with the PAT approach when designing the search tree. It consists of a cascade of *rough pre-quantizations* of the dataset with N_0 ($N_0 \approx 7$) prototypes (or classes) at each level. This again speeds up Chen’s PDS principle of course.

A different approach, not detailed here, is to devise *approximate nearest neighbor search procedures*, often based on some *anchor points* (see [29] for examples and the references therein).

3.5 Where to download optimal quantization grids?

Optimized quadratic quantization grids of the d -dimensional normal distributions $\mathcal{N}(0; I_d)$, computed on the occasions of various numerical experiments (pricing of multi-asset American style option, portfolio management, nonlinear filtering, swing option pricing, etc) by the hybrid “splitting method” described above can be downloaded from the website

www.quantize.maths-fi.com

for $N = 1$ up to 10^4 and $d = 1, \dots, 10$. The precise procedure is described in a companion which can be downloaded. On this website are also made available *functional quantization grids* of the standard Brownian motion over the interval $[0, 1]$, the Brownian bridge, as well as a detailed procedure to compute grids for the (normalized) Ornstein-Uhlenbeck process and its bridge ⁽⁶⁾.

4 Greedy quantization

4.1 What is greedy quantization?

We still consider $p \in (0, +\infty)$ and $X : (\Omega, \mathcal{A}, \mathbb{P}) \rightarrow \mathbb{R}^d$ an L^p -integrable random vector. The starting idea of *optimal greedy quantization* is to determine a *sequence* $(a_N)_{N \geq 1}$ of points of \mathbb{R}^d which is recursively optimal *step by step* or *level by level* with respect to the L^p -mean quantization criterion. We mean that, if we denote $a^{(N)} = \{a_1, \dots, a_N\}$, $N \geq 1$, then the points a_N are recursively defined by $a^{(0)} = \emptyset$ and

$$a_{N+1} \in \operatorname{argmin}_{\xi \in \mathbb{R}^d} e_p(a^{(N)} \cup \{\xi\}, X), \quad N \geq 0. \quad (4.42)$$

Note that this section is no longer amide survey but is made of new material, developed in an extended version in [48]. *A priori* the sequence is not uniquely defined since the above function may attain its minimum at several points of \mathbb{R}^d . Note that if $N = 0$, a_1 is simply the L^p -median of the distribution μ of X and is subsequently unique whenever $p > 1$ by a strict convexity argument. This idea to design not only optimal N -tuples but an optimal sequence which, hopefully, will produce N -tuples with a rate optimal behaviour as $N \rightarrow +\infty$ is very natural and can be compared to sequences with low discrepancy in Quasi-Monte Carlo methods. In fact such sequences have already been investigated but only in an L^1 setting when X has a compact support as a model of short term planning (by contrast with long term planning, see [12]). Our aim in this section, which is made of new results, is to solve this *greedy* optimization problem for general distributions $\mu = \mathbb{P}_X$ in any L^p -space in two directions: first establish the existence of such L^p -optimal greedy sequences and then evaluate the rate of decay of $e_p(a^{(N)}, X)$ to 0 as the quantization level N goes to infinity.

For convenience, we will introduce for every subset $A \subset \mathbb{R}^d$ and every $\xi \in \mathbb{R}^d$, the notation $\operatorname{dist}(\xi, A) = \inf_{a \in A} |\xi - a|$ for the distance between ξ and A , where $|\cdot|$ denotes the canonical Euclidean norm in what follows (however, except for algorithmic aspects the results that follow are true with any norm on \mathbb{R}^d). $B(\xi, r)$ will denote the closed ball centered at $\xi \in \mathbb{R}^d$ with radius $r > 0$.

Proposition 4.1. (a) If $X \in L^p_{\mathbb{R}^d}(\mathbb{P})$, then the sequence of optimization problems (4.42) admits at least one solution $(a_N)_{N \geq 1}$ where a_1 is the L^p -median of the distribution μ . Moreover, the sequence $(e_p(a^{(n)}, X))_{1 \leq n \leq N}$ is (strictly) decreasing as long as $N \leq |\operatorname{supp}(\mu)|$ (so that $a_n \notin a^{(n-1)}$, $1 \leq n \leq N$).

(b) Any solution $(a_N)_{N \geq 1}$ to (4.42) satisfies $\lim_N e_p(a^{(N)}, X) = 0$ i.e.

$$\lim_{N \rightarrow +\infty} \int_{\mathbb{R}^d} \min_{1 \leq i \leq N} |\xi - a_i|^p \mu(d\xi) = 0.$$

Such a solution is called an L^p -optimal greedy quantization sequence.

Proof. (a) We proceed by induction. When $N = 1$, the existence of a_1 obviously follows from the fact that $a \mapsto \mathbb{E}(|X - a|^p)$ is continuous and goes to infinity as $|a| \rightarrow +\infty$. Assume there exists a_1, \dots, a_N such that $e_p(a^{(k)}, X) = \min_{a \in \mathbb{R}^d} e_p(a^{(k-1)} \cup \{a\}, X)$ for $k = 2, \dots, N$.

If $\operatorname{supp}(\mu) \subset \{a_1, \dots, a_N\}$ then for every $a \in \mathbb{R}^d$, $e_p(a^{(N)} \cup \{a\}, X) = e_p(a^{(N)}, X)$. Otherwise, let $\xi^* \in \operatorname{supp}(\mu) \setminus \{a_1, \dots, a_N\}$. It is clear that $|\xi - \xi^*| < \operatorname{dist}(\xi, a^{(N)})$ on the ball $B(\xi^*, \frac{1}{4} \operatorname{dist}(\xi^*, a^{(N)}))$

⁶All downloads for scientific and non-commercial purposes are free of charges.

which satisfies $\mu(B(\xi^*, \frac{1}{4}\text{dist}(\xi^*, a^{(N)}))) > 0$. Consequently, $e_p(a^{(N)} \cup \{\xi^*\}, X) < e_p(a^{(N)}, X)$. Now let

$$K_{N+1}^0 = \{\xi \in \mathbb{R}^d \mid e_p(a^{(N)} \cup \{\xi\}, X) \leq e_p(a^{(N)} \cup \{\xi^*\}, X)\}.$$

This is a closed non-empty set of \mathbb{R}^d . Now let $(\xi_k)_{k \geq 1}$ be a sequence of elements of K_{N+1}^0 such that $|\xi_k| \rightarrow +\infty$ as $k \rightarrow +\infty$. It follows from Fatou's Lemma that

$$\begin{aligned} \liminf_k e_p(a^{(N)} \cup \{\xi_k\})^p &\geq \int_{\mathbb{R}^d} \liminf_k \min(\text{dist}(\xi, a^{(N)})^p, |\xi - \xi_k|^p) \mu(d\xi) \\ &= \int_{\mathbb{R}^d} \text{dist}(\xi, a^{(N)})^p \mu(d\xi) \\ &= e_p(a^{(N)}, X)^p > e_p(a^{(N)} \cup \{\xi^*\}, X)^p. \end{aligned}$$

This yields a contradiction which in turn implies that K_{N+1}^0 is a compact set. On the other hand, $\xi \mapsto e_p(a^{(N)} \cup \{\xi\}, X)$ is clearly Lipschitz continuous on \mathbb{R}^d , hence it attains its minimum on K_{N+1}^0 which is clearly its absolute minimum.

(b) It is clear that, for every $\xi \in \mathbb{R}^d$, $\min_{1 \leq i \leq N} |\xi - a_i|$ is non-increasing and converges toward $\inf_{N \geq 1} |\xi - a_N|$ so that by the Lebesgue dominated convergence theorem ($|\xi - a_1| \in L^1(\mu)$), one has

$$e_p(a^{(N)}, X)^p \downarrow \ell_\infty := \int_{\mathbb{R}^d} \inf_{N \geq 1} |\xi - a_N|^p \mu(d\xi).$$

Let $a^{(\infty)} = \{a_N, N \geq 1\}$. If $\ell_\infty \neq 0$, then there exists $\xi_0 \in \text{supp}(\mu)$ such that $\varepsilon_0 = \text{dist}(\xi_0, a^{(\infty)}) > 0$ and, for every $\xi \in B(\xi_0, \frac{\varepsilon_0}{4})$, $\text{dist}(\xi, a^{(N)}) \geq \frac{3}{4}\varepsilon_0$ so that

$$\int_{B(\xi_0, \frac{\varepsilon_0}{4})} \text{dist}(\xi, a^{(\infty)})^p \mu(d\xi) \geq \eta_0 \quad \text{with} \quad \eta_0 = \left(\frac{3\varepsilon_0}{4}\right)^p \mu(B(\xi_0, \frac{\varepsilon_0}{4})).$$

Let N_0 be a positive integer such that,

$$\int_{\mathbb{R}^d} \text{dist}(\xi, a^{(N_0)})^p \mu(d\xi) \leq \ell_\infty + \frac{\eta_0}{2} \left(1 - \frac{1}{3^p}\right).$$

We consider the $(N_0 + 1)$ -quantizer $a^{(N_0)} \cup \{\xi_0\}$. On the one hand,

$$\int_{B(\xi_0, \frac{\varepsilon_0}{4})} \text{dist}(\xi, a^{(N_0)} \cup \{\xi_0\})^p \mu(d\xi) \leq \left(\frac{\varepsilon_0}{4}\right)^p \mu(B(\xi_0, \frac{\varepsilon_0}{4})) = \frac{\eta_0}{3^p}$$

and, on the other hand,

$$\begin{aligned} \int_{cB(\xi_0, \frac{\varepsilon_0}{4})} \text{dist}(\xi, a^{(N_0)} \cup \{\xi_0\})^p \mu(d\xi) &\leq \int_{cB(\xi_0, \frac{\varepsilon_0}{4})} \text{dist}(\xi, a^{(N_0)})^p \mu(d\xi) \\ &\leq \int_{\mathbb{R}^d} \text{dist}(\xi, a^{(N_0)})^p \mu(d\xi) - \int_{B(\xi_0, \frac{\varepsilon_0}{4})} \text{dist}(\xi, a^{(N_0)})^p \mu(d\xi) \\ &\leq \ell_\infty + \frac{\eta_0}{2} \left(1 - \frac{1}{3^p}\right) - \eta_0. \end{aligned}$$

so that

$$\int_{\mathbb{R}^d} \text{dist}(\xi, a^{(N_0)} \cup \{\xi_0\})^p \mu(d\xi) \leq \ell_\infty + \frac{\eta_0}{2} \left(1 - \frac{1}{3^p}\right) - \eta_0 + \frac{\eta_0}{3^p} < \ell_\infty$$

which yields a contradiction. Hence $\ell_\infty = 0$ which completes the proof. \square

4.2 Greedy quantization is rate optimal

In this section we answer the question whether a greedy sequence may be rate optimal *i.e.* that $e_p(a^{(N)}, X)$ goes to zero at the same rate as a sequence of *optimal quantizers* at level N when $N \rightarrow +\infty$. Following [33], we define for every $b \in (0, +\infty)$ the *b-maximal function* associated to a greedy sequence $(a_N)_{N \geq 1}$ by

$$\forall \xi \in \mathbb{R}^d, \quad \Psi_b(\xi) = \sup_{N \geq 1} \frac{\lambda_d(B(\xi, b \operatorname{dist}(\xi, a^{(N)})))}{\mu(B(\xi, b \operatorname{dist}(\xi, a^{(N)})))} \in [0, +\infty].$$

It is clear that $\Psi_b(\xi) > 0$ for every $\xi \neq a_1$ (L^p -median).

Note that this notion of maximal function (originally introduced in [33]) can be naturally defined with respect to a sequence of grids $(\Gamma_N)_{N \geq 1}$ where Γ_N has size N . The theorem below yields a criterion based on the integrability of the maximal function Ψ_b which implies that an L^p -optimal greedy quantization sequence is L^p -rate optimal (in the sense of Zador's theorem). More practical and easy-to-check criterions are given further on.

Theorem 4.1. *Let $p \in (0, +\infty)$ and let $\mu = \mathbb{P}_X$ be such that $\int_{\mathbb{R}^d} |\xi|^p \mu(d\xi) < +\infty$. Assume that there exists $b \in (0, \frac{1}{2})$ such that $\Psi_b \in L^{\frac{p}{p+d}}(\mu)$. Then*

$$\limsup_N N^{\frac{1}{d}} e_p(a^{(N)}, X) < +\infty.$$

Proof. First, if μ is a Dirac mass δ_a for some $a \in \mathbb{R}^d$, then $a_1 = a$ and $e_p(a^{(N)}, X) = 0$ for every integer $N \geq 1$. Otherwise, we rely on the following micro-macro inequality established in We rely on the following micro-macro inequality established in [33] (see Equation (3.4) in the proof of Theorem 2).

$$\forall \xi \in \mathbb{R}^d, \quad \operatorname{dist}(\xi, a^{(N)})^p \leq \frac{C_{p,b}}{\mu(B(y, b \operatorname{dist}(y, a^{(N)})))} \left(e_p(a^{(N)}, X)^p - e_p(a^{(N)} \cup \{\xi\}, X)^p \right)$$

where $b \in (0, \frac{1}{2})$ and $C_{p,b}$ is a positive real constant depending on p and b . Then, it follows that

$$e_p(a^{(N)} \cup \{\xi\}, X)^p \leq e_p(a^{(N)}, X)^p - \frac{1}{C_{p,b}} \frac{\mu(B(\xi, b \operatorname{dist}(\xi, a^{(N)})))}{\lambda_d(B(\xi, b \operatorname{dist}(\xi, a^{(N)})))} b^d \operatorname{dist}(\xi, a^{(N)})^{p+d} V_d$$

where V_d denotes the hyper-volume of the unit ball with respect to the current norm on \mathbb{R}^d *i.e.* $V_d = \lambda_d(B_{|\cdot|}(0; 1))$. This implies that

$$e_p(a^{(N)} \cup \{\xi\}, X)^p \leq e_p(a^{(N)}, X)^p - \frac{1}{\tilde{C}_{p,b,d}} \frac{1}{\Psi_b(\xi)} \operatorname{dist}(\xi, a^{(N)})^{p+d}$$

where $\tilde{C}_{p,b,d} = C_{p,b}/(b^d V_d) \in (0, +\infty)$. Note that $\mu(\{a_1\}) < 1$ since μ is not a Dirac mass, so that

$$\int_{\mathbb{R}^d} \Psi_b^{\frac{p}{p+d}} d\mu > 0.$$

Consequently, as $\Psi_b \in L^{\frac{p}{p+d}}(\mu)$, we can define the probability distribution $\nu = \kappa_{b,p,d} \Psi_b^{\frac{p}{p+d}} \cdot \mu$ (where $\kappa_{b,p,d} = \left(\int_{\mathbb{R}^d} \Psi_b^{\frac{p}{p+d}} d\mu \right)^{-1} \in (0, +\infty)$ is a normalizing real constant). Then, integrating the above inequality with respect to ν yields

$$\int_{\mathbb{R}^d} e_p(a^{(N)} \cup \{\xi\}, X)^p \nu(d\xi) \leq e_p(a^{(N)}, X)^p - \frac{1}{\tilde{C}_{p,b,d}} \int_{\mathbb{R}^d} \operatorname{dist}(\xi, a^{(N)})^{p+d} \frac{\nu(d\xi)}{\Psi_b(\xi)}.$$

Jensen's Inequality applied to the convex function $u \mapsto u^{1+\frac{d}{p}}$ yields

$$\begin{aligned} \int_{\mathbb{R}^d} \text{dist}(\xi, a^{(N)})^{p+d} \frac{\nu(d\xi)}{\Psi_b(\xi)} &\geq \left(\int_{\mathbb{R}^d} \text{dist}(\xi, a^{(N)})^p \frac{\nu(d\xi)}{\Psi_b(\xi)^{\frac{p}{p+d}}} \right)^{1+\frac{d}{p}} \\ &= \kappa_{b,p,d}^{1+\frac{d}{p}} \left(\int_{\mathbb{R}^d} \text{dist}(\xi, a^{(N)})^p \mu(d\xi) \right)^{1+\frac{d}{p}} \\ &= \kappa_{b,p,d}^{1+\frac{d}{p}} e_p(a^{(N)}, X)^{p+d}. \end{aligned}$$

On the other hand, it is clear that

$$e_p(a^{(N+1)}, X)^p \leq \int_{\mathbb{R}^d} \nu(d\xi) e_p(a^{(N)} \cup \{\xi\}, X)^p$$

so that, finally, if we set $A_N = e_p(a^{(N)}, X)^p$, $N \geq 1$, this sequence satisfies for every integer $N \geq 1$, the recursive inequality

$$A_{N+1} \leq A_N - \tilde{\kappa}_{b,p,d} A_N^{1+\frac{d}{p}}$$

where $\tilde{\kappa}_{b,p,d} = \kappa_{b,p,d}^{1+\frac{d}{p}} / \tilde{C}_{r,b,d}$. The sequence $(A_N)_{N \geq 1}$ being non-negative, one classically derives the announced conclusion. \square

Remark. When μ has no absolutely continuous part with respect to the Lebesgue measure, it is likely that, like for standard optimal vector quantization in Zador's Theorem, this rate is not optimal. The natural conjecture should be that greedy quantization sequence(s) go to 0 at the same rate as that obtained for sequences of optimal quantizers which is not $N^{-\frac{1}{d}}$ when the distribution μ is singular (see e.g. [32]).

We produce below easy-to-check criterions that can be straightforwardly borrowed (and slightly adapted) from [33] which ensure that Ψ_b has the required integrability property so that any greedy sequence is rate optimal.

The case of compactly supported distributions.

Lemma 4.1 (see Lemma 1 in [33]). *If $X \in L_{\mathbb{R}^d}^p(\mathbb{P})$ has a distribution μ having an absolutely continuous component and if $(\Gamma_N)_{N \geq 1}$ is a sequence of N -quantizers such that $\int_{\mathbb{R}^d} \text{dist}(\xi, \Gamma_N)^p \mu(d\xi) \rightarrow 0$ then the maximal functions Ψ_b lie in all $L_{loc}^r(\mu)$ for every $r \in (0, 1)$ i.e.*

$$\forall r \in (0, 1), \forall b \in (0, +\infty), \forall R \in (0, +\infty), \int_{\{|\xi| \leq R\}} \psi_b(\xi)^r \mu(d\xi) < +\infty.$$

By combining this result (with $r = \frac{p}{p+d}$) with Proposition 4.1, we derive the following proposition which generalizes the one stated in [12] for absolutely continuous distributions μ having a convex support on \mathbb{R}^d .

Proposition 4.2 (Compact support). *If X has a distribution μ with compact support, then any greedy L^p -optimal sequence $(a_N)_{N \geq 1}$ is rate optimal i.e. satisfies*

$$\limsup_N N^{\frac{1}{d}} e_p(X, a^{(N)}) < +\infty.$$

The case of non-compactly supported distributions with radial density functions

Lemma 4.2 (see Corollary 3 in [33]). *If $X \in L_{\mathbb{R}^d}^{p+\eta}(\mathbb{P})$ for some $\eta > 0$ with an essentially radial distribution $\mu = \varphi \cdot \lambda_d$ in the sense that*

$$\varphi = h(|\cdot|_0) \text{ on } B_{|\cdot|_0}(0, R)^c \text{ with } h : (R, +\infty) \rightarrow \mathbb{R}_+, \text{ non-increasing and } |\cdot|_0 \text{ a norm on } \mathbb{R}^d. \quad (4.43)$$

Let $(\Gamma_N)_{N \geq 1}$ be a sequence of N -quantizers such that $\int_{\mathbb{R}^d} \text{dist}(\xi, \Gamma_N)^p \mu(d\xi) \rightarrow 0$. If there exists a real constant $c > 1$ such that

$$\int_{\mathbb{R}^d} \varphi(c\xi)^{-\frac{p}{p+d}} \mu(d\xi) = \int_{\mathbb{R}^d} \varphi(c\xi)^{-\frac{p}{p+d}} \varphi(\xi) d\xi < +\infty \quad (4.44)$$

then $\Psi_b \in L^{\frac{p}{p+d}}(\mu)$.

In fact Corollary 3 in [33] is stated to be used only with L^p -optimal quantizers so the above formulation includes minor modifications. Combining this lemma with Theorem 4.1 yields the following proposition.

Proposition 4.3 (Non-compact support with radial density). *If $X \in L_{\mathbb{R}^d}^{p+\eta}(\mathbb{P})$ for some $\eta > 0$ with an essentially radial distribution in the sense of (4.43). If, furthermore, φ satisfies (4.44), then any greedy L^p -optimal sequence $(a_N)_{N \geq 1}$ is rate optimal i.e. satisfies*

$$\limsup_N N^{\frac{1}{d}} e_p(X, a^{(N)}) < +\infty.$$

This case includes e.g. all the (centered) *hyper-exponential distributions* of the form $\mu = \varphi \cdot \lambda_d$ with

$$\varphi(\xi) = \kappa_{a,b,c} |\xi|_0^c e^{-a|\xi|_0^b}, \quad \xi \in \mathbb{R}^d, \quad a, b > 0, \quad c > -d$$

and $|\cdot|_0$ denotes any norm on \mathbb{R}^d and subsequently all hyper-exponential distributions since L^p -mean-quantization errors is invariant by translation of the random vector X . In particular, this includes all normal and Laplace distributions

Remark. In one dimension, (4.43) can be replaced *mutatis mutandis* by a one-sided variant: if there exists $R_0, R'_0 \in \mathbb{R}$, $R'_0 \geq R_0$ such that

$$\text{supp}(\mu) \subset [R_0, +\infty) \quad \text{and} \quad f_{|[R'_0, +\infty)} \text{ is non-increasing.} \quad (4.45)$$

This criterion is e.g. satisfied by the gamma distributions on \mathbb{R}_+ (including the exponential distributions).

A criterion for non-radial density functions can also be derived from Corollary 4 in [33], see [48] for details.

From now on in this section, we denote by $(a_{N,p})_{N \geq 1}$ an (L^p, μ) -optimal greedy quantization sequence and $(a^{(N),p})_{N \geq 1}$ the resulting sequence of N -quantizers.

Further comments and provisional remarks. • If $\mathbb{E}|X|^{p+\eta} < +\infty$ for some $\eta > 0$ $\mu = \mathbb{P}_X$ has a non-zero absolutely continuous component $\varphi \cdot \lambda_d$ with respect to the Lebesgue measure, Zador's Theorem implies

$$\liminf_N N^{\frac{1}{d}} e_p(a^{(N)}, X) \geq \lim_N N^{\frac{1}{d}} e_p(X) = \tilde{J}_{p,d} \|\varphi\|_{L^{\frac{p}{p+d}}(\lambda_d)}^{\frac{1}{p}} > 0.$$

In that setting, we derive that $e_p(a^{(N)}, X) \asymp N^{-\frac{1}{d}}$ as $N \rightarrow +\infty$.

- *About the sharpness of optimal greedy sequences.* It is pointed out in [12] (see Theorem 4.10) that, by contrast with what is observed with regular (*i.e.* global) optimization at level N (Zador's Theorem), $N^{\frac{1}{d}} e_p(a^{(N)}, X)$ usually does not converge when $(a_N)_{N \geq 1}$ is a greedy L^p -optimal sequence. The counter-example is exhibited in the one-dimensional framework for the uniform distribution $U([0, 1])$ where an L^1 -optimal greedy sequence $(a_{N,1})_{N \geq 1}$ is analyzed. It is shown that for this sequence $Ne_p(a^{(N),1}, U([0, 1]))$ does not converge as N goes to infinity and $1 < \liminf_N \frac{e_1(a^{(N),1}, U([0, 1]))}{e_{1,N}(U([0, 1]))} < \limsup_N \frac{e_1(a^{(N),1}, U([0, 1]))}{e_{1,N}(U([0, 1]))} < +\infty$. Other numerical experiments reproduced below in the quadratic case $p = 2$, still with $U([0, 1])$, on the one hand and, on the other hand, in [48], with the scalar and bivariate normal distributions $\mathcal{N}(0; 1)$ and $\mathcal{N}(0; I_2)$ (which have an unbounded support), strongly suggest that, for more general absolute continuous distributions μ on $(\mathbb{R}^d, \mathcal{B}or(\mathbb{R}^d))$, (L^p, μ) -optimal greedy sequence(s) $(a_{N,p})_{N \geq 1}$ satisfy

$$\liminf_N \frac{e_p(a^{(N),p}, \mu)}{e_{p,N}(\mu)} > 1.$$

However, no proof of this fact is known to us so far. As a consequence, owing to Theorem 2.2 (and the remark that follows), this would prove that *no subsequence extracted from an (L^p, μ) -greedy optimal sequence $(a_{N,p})_{N \geq 1}$ can produce a (subsequence) $(a^{(N'),p})_{N \geq 1}$ of asymptotically L^p -optimal N' -quantizers for μ .*

- *Rate optimality of non-greedy sequences.* Another natural question arises at this stage: “Are there rate optimal sequences for the L^p -mean quantization error which are not solution to the greedy problem?”

To answer – positively – to this question, let us consider the celebrated *dyadic Van der Corput* (*VdC*) sequence, viewed as a quantization sequence rather than a sequence with low discrepancy. Let us recall that the *VdC* sequence is defined by

$$\forall N \geq 1, \quad \xi_N = \sum_{k=0}^r \frac{n_k}{2^{k+1}} \quad \text{where} \quad N = n_r 2^r + \dots + n_0, \quad n_i \in \{0, 1\}, \quad i = 1, \dots, r. \quad (4.46)$$

▷ *L^1 -mean quantization problem.* Elementary computations carried out with the L^1 -mean quantization error modulus, not reproduced here, show that

$$\liminf_N Ne_1(\xi_1, \dots, \xi_N, [0, 1]) = \frac{1}{4} = \tilde{J}_{1,1} \quad \text{and} \quad \limsup_N Ne_1(\xi_1, \dots, \xi_N, [0, 1]) = \frac{9}{32} = \frac{9}{8} \times \tilde{J}_{1,1}$$

where $\tilde{J}_{1,1} = \lim_N e_{1,N}(U([0, 1]))$. This \liminf is achieved by the subsequence $N' = 2^{n-1}$, $n \geq 1$, and the \limsup with the subsequence $N = \frac{3}{2} \cdot 2^n = 3 \cdot 2^{n-1}$. So we can answer to the first question: *it does exist rate optimal sequences for the L^1 -mean quantization error which are not solutions to the greedy problem (4.42).* In fact this example shows that it even exists rate optimal sequences $(\xi_N)_{N \geq 1}$ containing subsequence of quantizers $(\xi^{(N')})_{N \geq 1}$ which are asymptotically L^1 -rate optimal quantizers: so is the case of the Van der Corput sequence with the above subsequence $N' = 2^{n-1}$.

On the other hand the sequence $(a^{(N),1})_{N \geq 1}$ has been investigated in in [12], numerical computations carried out in this paper still suggest that

$$\liminf_N Ne_1(a^{(N),1}, U([0, 1])) \approx 1,02 \times \tilde{J}_{1,1}$$

and

$$\limsup_N Ne_1(a^{(N),1}, U([0, 1])) \approx 1.09 \times \tilde{J}_{1,1}$$

The second inequality the sequence $(a_{N,1})_{N \geq 1}$ outperforms the *VdC* sequence from the lim sup criterion since $1.09 < 1.125 = 9/8$.

▷ *L²-mean quantization problem.* The same phenomenons are confirmed in the quadratic case since

$$\liminf_N Ne_2(\xi_1, \dots, \xi_N, [0, 1]) = \frac{1}{2\sqrt{3}} = \tilde{J}_{2,1} \quad \text{and} \quad \limsup_N Ne_2(\xi_1, \dots, \xi_N, [0, 1]) = \frac{3\sqrt{5}}{4} \times \tilde{J}_{2,1}$$

where $\tilde{J}_{2,1} = \lim_N Ne_{2,N}(U([0, 1])) = \inf_N Ne_{2,N}(U([0, 1]))$. Using the greedy Lloyd I procedure briefly described in the next Section 4.3, we observe numerically that

$$\liminf_N Ne_2(a^{(N),2}, U([0, 1])) \approx 1.02732 \times \tilde{J}_{2,1} > \tilde{J}_{2,1}$$

and

$$\limsup_N Ne_2(a^{(N),2}, U([0, 1])) \approx 1.13401 \times \tilde{J}_{2,1}.$$

As for the lim inf, one checks again that no subsequence of $(a^{(N),2})_{N \geq 1}$ can be asymptotically *L²-optimal*.

As for the lim sup, one checks again that the quadratic optimal greedy sequence $(a_{N,2})_{N \geq 1}$ outperforms the *VdC* sequence from the lim sup criterion since $1.13401 < 1.67706 = \frac{3\sqrt{5}}{4}$.

Both these results and numerical experiments naturally lead to two open theoretical questions, left for further investigations:

- (1) Does it exist distributions μ (with a non-countable support) for which an *L^p-optimal* greedy sequence $(a_{N,p})_{N \geq 1}$ produces a sequence of asymptotically optimal *N*-quantizers $(a^{(N),p})_{N \geq 1}$ *i.e.* such that $\frac{e_p(a^{(N),p}, \mu)}{e_{p,N}(\mu)} \rightarrow 1$ as *N* goes to $+\infty$; or at least subsequences $(a^{(N'),p})_{N \geq 1}$ having this property ?
- (2) Does an *(L^p, μ)-optimal* greedy sequence for a distribution μ on \mathbb{R}^d produce the lowest possible value for $\limsup_N N^{\frac{1}{d}} e_{p,N}(a^{(N),p}, \mu)$ among all \mathbb{R}^d -valued sequences $(\xi_N)_{N \geq 1}$?

The answer to the first question is probably negative (based on our numerical experiments) whereas the second one remains more uncertain.

4.3 Algorithmic aspects

We adopt notations of Sections 3. Practical computation of an optimal greedy sequence of quantizers relies on obvious variants of the historical algorithms (*CLVQ* and *Lloyd I*) implemented recursively: to switch from level *N* to *N + 1*, one first adds a $(N + 1)^{th}$ point (sampled from the support of the distribution μ) to the *N*-tuple (a_1, \dots, a_N) computed during the first *N* stages of the optimization procedure. This makes up the starting $(N + 1)$ -tuple for the modified *CLVQ* or *Lloyd I* procedure. Then, one implements one of these two optimization procedures with the following restriction: *all formerly computed components a_i , $1 \leq i \leq N$, are frozen*, and only the new point is moved, following the standard rules. Thus, if implementing a greedy *CLVQ* algorithm, when the $(N + 1)^{th}$ component is the “winner” in the competition phase (*i.e.* this $(N + 1)^{th}$ component at the m^{th} is the nearest

neighbour to the new input stimulus, say X^{m+1}). For Lloyd's I procedure, this $(N + 1)^{th}$ component is the only one to be updated following (3.41), the other N components remaining frozen as well.

For more details about these greedy variants, especially Lloyd's I, we refer to [48] where convergence proofs are provide (complete in 1-diemsnion, partial in higher dimension).

We reproduce in Figure 4 the graph of the $N \mapsto Ne_{2,N}(a^{(N)}, U([0, 1]))$ where $(a_N)_{N \geq 1}$ is an L^2 -optimal greedy quantization sequence for the uniform distribution $U([0, 1])$.

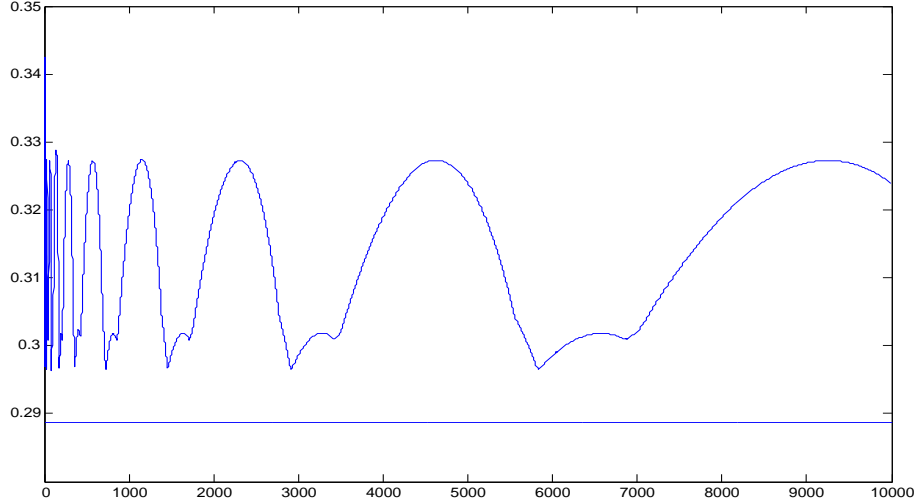


Figure 4: $N \mapsto Ne_{2,N}(a^{(N),2}, U([0, 1]))$, $N = 1, \dots, 10\,000$, $(a_{N,2})_{N \geq 1}$ L^2 -optimal greedy sequence; flat solid line (—) $\equiv \tilde{J}_{2,1} = \sqrt{\frac{1}{2\sqrt{3}}}$.

4.4 Greedy quantization versus Quasi-Monte Carlo?

Of course, for every integer $N \geq 1$, the *weights* induced by the μ -mass of the Voronoi cells associated to $a^{(N)}$ define canonically a sequence of N -tuples which usually cannot be “arranged” into a sequence, even up to a re-scaling. When considering the unit hypercube $[0, 1]^d$ as a state spaces in d dimension, it is easy natural to compare an optimal greedy sequence with respect to the uniform distribution $U([0, 1]^d)$ and the so-called *uniformly distributed sequences* usually implemented in the Quasi-Monte Carlo method.

Let us recall that a sequence $(\xi_N)_{N \geq 1}$ is uniformly distributed over $[0, 1]^d$ if the empirical measures $\nu_N = \frac{1}{N} \sum_{i=1}^N \delta_{\xi_i}$, $N \geq 1$, weakly converges toward the *Lebesgue measure* λ_d on $[0, 1]^d$. In particular this

means that, for every bounded λ_d -a.s. continuous function $f : [0, 1]^d \rightarrow \mathbb{R}$, $\frac{1}{N} \sum_{i=1}^N f(\xi_i) \rightarrow \int_{[0, 1]^d} f d\lambda_d =$

$\int_{[0, 1]^d} f(u) du$. This means that the weights associated to a uniformly distributed sequence are by definition equal to $\frac{1}{N}$ (*i.e.* are equal to 1 up to the normalization factor $1/N$). We will see that the cost induced by considering these uniform weights $\frac{1}{N}$ is essentially $\log N$. This follows from Proinov's Theorem (see [68]) recalled below, which evaluates precisely the rate of convergence of these sequences on Lipschitz continuous functions.

In the Quasi-Monte Carlo (*QMC*) method, the performance of an N -tuple $(\xi_1, \dots, \xi_N) \in ([0, 1]^d)^N$ is measured by the Kolmogorov-Smirnov distance between the d -dimensional cumulative distribution

function of its empirical measure ν_N and the uniform distribution $U([0, 1]^d)$, namely the so-called *star discrepancy* defined by

$$D_N^*(\xi_1, \dots, \xi_N) = \sup_{u \in [0, 1]^d} \left| \frac{1}{N} \sum_{i=1}^N \mathbf{1}_{\{\xi_i \in [0, u]\}} - \lambda_d([0, u]) \right| \quad (4.47)$$

where $[0, u] = \prod_{\ell=1}^d [0, u^\ell]$, $u = (u^1, \dots, u^d) \in [0, 1]^d$.

Several sequences $\xi = (\xi_N)_{N \geq 1}$ have been exhibited (see [52]) whose star discrepancy at the origin satisfy for a real constant $C(\xi) \in (0, +\infty)$,

$$\forall N \geq 1, \quad D_N^*(\xi_1, \dots, \xi_N) \leq C(\xi) \frac{(1 + \log N)^d}{N}. \quad (4.48)$$

Among them, in 1-dimension, the dyadic *VdC* sequence as defined by (4.46) (and its p -adic generalizations *VdC*(p), $p \geq 2$) and, in d -dimension, the Halton sequences (made up with *VdC*(p_i) sequences where the bases p_i , $i = 1, \dots, d$ are the first d prime numbers), the Faure sequences, the Sobol' sequences and the unifying framework developed by Niederreiter [52]. For definitions of these sequences and numerical tests on various numerical integration problems we refer to [11, 52, 63, 65]. Although such a rate has never been proved to be the lowest possible, its optimality is a commonly shared opinion in the *QMC* community (however see [52] for a review of existing lower bounds).

The striking fact with these sequences satisfying (4.48), called *sequences with low discrepancy*, is that, when implemented on the class of functions with *finite variation* on $[0, 1]^d$, the Koksma-Hlawka inequality implies that, for every such function $f : [0, 1]^d \rightarrow \mathbb{R}$

$$\left| \int_{[0, 1]^d} f d\lambda_d - \frac{1}{N} \sum_{i=1}^N f(\xi_i) \right| \leq V(f) D_N^*(\xi_1, \dots, \xi_N)$$

where $V(f)$ denotes the variation of the function f . So it induces for this specific class of functions a rate of numerical integration of order $O\left(\frac{(\log N)^d}{N}\right)$. In one dimension ($d = 1$), the above notion of finite variation coincides with the standard definition of finite variation in real analysis. When $d \geq 2$, several definitions can be given, the most popular being the finite variation in the Hardy & Krause sense (as described *e.g.* in [52]). Another – slightly less general but more elementary – being the *finite variation in the signed measure* sense developed in [11] (see also [65]). Unfortunately, as the dimension d increases, the set of functions with finite variation (in any of the above senses) becomes somewhat “sparse” among the set of all real-valued Borel functions defined on $[0, 1]^d$. So, one may have doubts about this striking performance when dealing with practical simulation problems. This is confirmed by their behaviour on the more natural space of Lipschitz continuous functions which is ruled by the following Proinov Theorem.

Theorem 4.2. (Proinov, [68]) Assume \mathbb{R}^d is equipped with the ℓ^∞ -norm $|(\xi^1, \dots, \xi^d)|_\infty = \max_{1 \leq i \leq d} |\xi^i|$. For every continuous function $f : [0, 1]^d \rightarrow \mathbb{R}$, let

$$w(f, \delta) := \sup_{\xi, \xi' \in [0, 1]^d, |\xi - \xi'|_\infty \leq \delta} |f(\xi) - f(\xi')|, \quad \delta \in (0, 1).$$

denote the related uniform continuity modulus of f (with range δ).

(a) Let $(\xi_1, \dots, \xi_N) \in ([0, 1]^d)^N$. For every continuous function $f : [0, 1]^d \rightarrow \mathbb{R}$ and every integer $N \geq 1$,

$$\left| \int_{[0, 1]^d} f d\lambda_d - \frac{1}{N} \sum_{i=1}^N f(\xi_i) \right| \leq C_d w(f, D_N^*(\xi_1, \dots, \xi_N)^{\frac{1}{d}})$$

where $C_d \in (0, +\infty)$ is a universal optimal real constant only depending on d . In particular, if the function $f : [0, 1]^d \rightarrow \mathbb{R}$ is Lipschitz continuous with coefficient $[f]_{\text{Lip}} := \sup_{x, y \in [0, 1]^d} \frac{|f(x) - f(y)|}{|x - y|_\infty}$, then

$$\left| \int_{[0, 1]^d} f d\lambda_d - \frac{1}{N} \sum_{i=1}^N f(\xi_i) \right| \leq C_d [f]_{\text{Lip}} D_N^*(\xi_1, \dots, \xi_N)^{\frac{1}{d}}.$$

If $d = 1$, $C_d = 1$ and if $d \geq 2$, $C_d \in [1, 4]$.

(b) In particular if $(\xi_N)_{N \geq 1}$ is a sequence with low discrepancy in the above sense, then for every integer $N \geq 1$,

$$\left| \int_{[0, 1]^d} f d\lambda_d - \frac{1}{N} \sum_{i=1}^N f(\xi_i) \right| \leq C_d [f]_{\text{Lip}} C(\xi) \frac{1 + \log N}{N^{\frac{1}{d}}}.$$

Remark. As the function $f_\xi : u \mapsto \min_{1 \leq i \leq N} |u - \xi_i|$ defined on $[0, 1]$ is 1-Lipschitz continuous and equal to 0 on $\{\xi_1, \dots, \xi_N\}$, Proinov's inequality in (a) implies that $e_1(\xi_1, \dots, \xi_N, U([0, 1])) \leq D_N^*(\xi_1, \dots, \xi_N)$.

The above claim (b) emphasizes the fact that considering uniform weights $\frac{1}{N}$ induces the loss of a $\log N$ factor compared to an $(L^1, U([0, 1]))$ -optimal greedy (or simply rate optimal) sequence since, for such a greedy sequence $(a_N)_{N \geq 1}$, one has, for every $N \geq 1$,

$$\left| \int_{[0, 1]^d} f d\lambda_d - \sum_{i=1}^N w_i^{(N)} f(a_i) \right| \leq \kappa(a) [f]_{\text{Lip}} \frac{1}{N^{\frac{1}{d}}}.$$

Of course the practical implementation of such greedy sequences is more demanding since one needs to have access to the attached N -tuples of weights $w^{(N)} = (w_1^{(N)}, \dots, w_N^{(N)})$. However, by contrast, one checks that the cubature formulas based on optimal quantization turn out to be efficient for much lower values of N than sequences with low discrepancy (see *e.g.* the numerical experiments carried out in [56] for the pricing of European derivatives).

ACKNOWLEDGEMENT: The author thanks B. Jourdain and the referee for their careful reading of the manuscript. All errors are mine.

References

- [1] ACHDOU Y., PIRONNEAU O. (2005). Computational Methods for Option Pricing, *SIAM series: Frontiers in Applied Mathematics*, 1987pp.
- [2] BALLY V., PAGÈS G. (2003). A quantization algorithm for solving discrete time multidimensional optimal stopping problems, *Bernoulli*, **9**(6):1003-1049.
- [3] BALLY V., PAGÈS G. (2003). Error analysis of the quantization algorithm for obstacle problems, *Stoch. Proc. & their Appl.*, **106**(1):1-40.
- [4] V. BALLY, G. PAGÈS and J. PRINTEMPS (2005): A quantization method for pricing and hedging multi-dimensional American style options, *Mathematical Finance*, **15**(1):119-168.
- [5] BENSOUSSAN A. (1984). On the theory of option pricing, *Acta Appl. Math.*, **2**:139-158.
- [6] BENSOUSSAN A., LIONS J.-L. (1978). *Applications des inéquations variationnelles en contrôle stochastique*, Dunod, Paris, 525 pp.
- [7] BALLY V., TALAY D. (1996). The distribution of the Euler scheme for stochastic differential equations: I. Convergence rate of the distribution function, *Probab. Theory Related Fields*, **104**(1): 43-60.

- [8] BENVENISTE A., MÉTIVIER M. AND PRIOURET P. (1987). *Algorithmes adaptatifs and approximations stochastiques*. Masson, Paris, 367 pp. English updated translation (by S.S. Wilson), (2012). *Adaptive Algorithms and Stochastic Approximations*, Springer-Verlag Berlin and Heidelberg, 380 pp.
- [9] BESKOS A., ROBERTS G.O. (2005). Exact simulation of diffusions, *Ann. Appl. Prob.*, **15**(4): 2422-2444.
- [10] BIAU G., DEVROYE L. AND LUGOSI G. (2008). On the performance of clustering in Hilbert spaces, *IEEE Transactions on Information Theory*, **54**:781-790.
- [11] BOULEAU N., LÉPINGLE D. (1994). *Numerical methods for stochastic processes*, Wiley Series in Probability and Mathematical Statistics: Applied Probability and Statistics. A Wiley-Interscience Publication. John Wiley & Sons, Inc., New York, 359 pp. ISBN: 0-471-54641-0
- [12] BRANCOLINI A., BUTAZZO G., SANTAMBROGIO F. AND STEPANOV E. (2009). Long-term planning *versus* short term planning in the asymptotical location problem, *ESAIM: COCVV*, **15**, 509-524.
- [13] BRANDEJSKY A., DE SAPORTA B. AND DUFOUR F. (2013). Optimal stopping for partially observed piecewise-deterministic Markov processes, *Stochastic Processes and their Applications*, **123**(8): 3201-3238.
- [14] BRANDEJSKY A., DE SAPORTA B. AND DUFOUR F. (2012). Numerical method for impulse control of piecewise deterministic Markov processes, *Automatica*, **48**(5): 779-793.
- [15] BUCKLEW J.A., WISE G.L. (1988). Multidimensional Asymptotic Quantization Theory with r^{th} Power Distortion Measures, *IEEE Transactions on Information Theory*, Vol. IT-**28**(2): 239-247.
- [16] CARDOT H., CÉNAC P. AND MONNEZ J.-M. (2012). A fast and recursive algorithm for clustering large dataset with k -medians, *Computational Statistics & Data Analysis*, **56**(6):1431-1449.
- [17] CORLAY S. (2011). *Some aspects of optimal quantization and applications to finance*. Thèse de l'Université Pierre et Marie Curie. <http://tel.archives-ouvertes.fr/tel-00626445/>
- [18] CORSI M., PHAM H. AND RUNGGALDIER W. (2008). Numerical approximation by quantization of control problems in finance under partial observation, chapter from *Mathematical Modeling and Numerical Methods in Finance*, (special volume, A. Bensoussan, Q. Zhang guest eds.), *Handbook of Numerical Analysis* **15** (P.G. Ciarlet Editor), North Holland, 325-360.
- [19] COVER, T., THOMAS, J. (2006). *Elements of Information Theory*. Second edition. Wiley-Interscience [John Wiley & Sons], Hoboken, NJ, xxiv+748 pp.
- [20] CUESTA-ALBERTOS, J.A., MATRÁN, C. (1988). The strong law of large numbers for k -means and best possible nets of Banach valued random variables. *Probab. & Theory Related Fields*, **78**:523-534.
- [21] DELATTRE S., GRAF S., LUSCHGY H. AND PAGÈS G. (2004). Quantization of probability distributions under norm-based distortion measures, *Statistics & Decision*, **22**:261-282.
- [22] DEMBO A., ZEITOUNI O. (2010). *Large deviations techniques and applications*. Corrected reprint of the second (1998) edition. Stochastic Modeling and Applied Probability, **38**. Springer-Verlag, Berlin, 2010. xvi+396p.
- [23] DEREICH S. (2007). The coding complexity of diffusion processes under $L^p([0, 1])$ -norm distortion, *Stochastic Process. Appl.*, **118**(6):938-951.
- [24] DU Q., FABER V. AND GUNZBURGER M. (1999). Centroidal Voronoi Tessellations: Applications and Algorithms, *SIAM Review*, **41**: 637-676.
- [25] DU Q., EMELIANENKO M. AND JU L. (2006). Convergence of the Lloyd I algorithm for computing centroidal Voronoi tessellations, *SIAM Journal on Numerical Analysis*, **44**:102-119.
- [26] DUFLO M. (1997). *Algorithmes stochastiques*, coll. Mathématiques & Applications, **23**, Springer-Verlag, Berlin, 319p.
- [27] FOURNIÉ, É., LASRY J.M., LEBUCHOUX J., LIONS P.-L., TOUZI N. (1999). Some applications of Malliavin calculus to Monte Carlo methods in finance, *Finance and Stochastics*, **3**:391-412

- [28] FRIEDMAN J. H., BENTLEY J.L. AND FINKEL R.A. (1977). An Algorithm for Finding Best Matches in Logarithmic Expected Time, *ACM Transactions on Mathematical Software*, **3**(3):209-226.
- [29] GERSHO A., GRAY R.M. (1991). *Vector Quantization and Signal Compression*, Springer International Series in Engineering and Computer Science, **159**, Springer, 732 pp.
- [30] GLASSERMAN P. (2003). *Monte Carlo Methods in Financial Engineering*, Springer-Verlag, New York, 596pp.
- [31] GOBET E., PAGÈS G., PHAM H. AND PRINTEMPS J. (2007). Discretization and simulation of the Zakai Equation, *SIAM J. on Numerical Analysis*, **44**(6):2505-2538.
- [32] GRAF S., LUSCHGY H. (2000). *Foundations of Quantization for Probability Distributions*. Lecture Notes in Math. 1730. Springer, Berlin.
- [33] GRAF S., LUSCHGY H. AND PAGÈS G. (2008). Distortion mismatch in the quantization of probability measures, *ESAIM P&S*, **12**:127-154.
- [34] GRAF, S., LUSCHGY, H. AND PAGÈS G. (2007). Optimal quantizers for Radon random vectors in a Banach space. *J. Approx. Theory*, **144**(1):27-53.
- [35] GRAF, S., LUSCHGY, H. AND PAGÈS G. (2012). The local quantization behaviour of absolutely continuous probabilities, *Annals of Probab.* **40**(4):1795-1828.
- [36] HUFFMAN D.A. (1952). A method for the construction of minimum redundancy codes, *Proc. IRE*, **40**: 1098-1101.
- [37] JAILLET P., LAMBERTON D. AND LAPEYRE B. (1990). Variational inequalities and the pricing of American options, *Acta Appl. Math.*, **21**:263-289.
- [38] KIEFFER J.C. (1982). Exponential rate of convergence for Lloyd's method I, *IEEE Trans. on Inform. Theory*, Special issue on quantization, IT-**28**(2):205-210.
- [39] KUSHNER H.J., YIN G.G. (2003). Stochastic approximation and recursive algorithms and applications, 2nd edition, *Applications of Mathematics, Stochastic Modeling and Applied Probability*, **35**, Springer-Verlag, New York, xxii+474 pp.
- [40] LAMBERTON D., LAPEYRE B. (1996). *Introduction to stochastic calculus applied to finance*. Chapman & Hall, London, 185 pp.
- [41] LAPEYRE B., PARDOUX É., SENTIS R. (2003). Introduction to Monte-Carlo Methods for Transport and Diffusion Equations, coll. Oxford Texts in Applied and Engineering Mathematics, (translated from French by A. Craig and F. Craig), Oxford University Press, USA, 176 pp.
- [42] LAMBERTON D. (2009). *Optimal stopping and American options*, Ljubljana Summer School on Financial Mathematics, <http://www.fmf.uni-lj.si/finmath09/ShortCourseAmericanOptions.pdf>.
- [43] LEJAY A., REUTENAUER V. (2012). A variance reduction technique using a quantized Brownian motion as a control variate, *J. Comput. Finance*, **16**(2):61-84.
- [44] LONGSTAFF F.A., SCHWARZ E.S. (2001). Valuing American options by simulation: a simple least-squares approach, *Review of Financial Studies*, **14**:113-148.
- [45] LUSCHGY, H., PAGÈS, G. (2002). Functional quantization of stochastic processes, *J. Funct. Anal.*, **196**:486-531.
- [46] LUSCHGY, H., PAGÈS, G. (2004). Sharp asymptotics of the functional quantization problem for Gaussian processes, *Ann. Probab.* **32**:1574-1599.
- [47] LUSCHGY H., PAGÈS G. (2008). Functional quantization rate and mean regularity of processes with an application to Lévy processes, *Annals of Applied Probability*, **18**(2):427-469.
- [48] LUSCHGY, H., PAGÈS, G. (2014). Greedy vector quantization, pré-pub. LPMA, submitted for publication.

- [49] MCNAMES J. (2001). A Fast Nearest-Neighbor Algorithm Based on a Principal Axis Search Tree, *IEEE Transactions on Pattern Analysis and Machine Intelligence*, **23**(9):964-976.
- [50] MIREBEAU J.M., COHEN A. (2012). Greedy bisection generates optimally adapted triangulations, *Math. Comp.*, **81**(278):811-837.
- [51] NEVEU J. (1972). *Martingales à temps discret*, Masson, 1972, 218 pp. English translation: *Discrete-parameter martingales*, North-Holland, New York, 1975, 236pp.
- [52] NIEDERREITER H. (1992). *Random Number Generation and Quasi-Monte Carlo Methods*, CBMS-NSF regional conference series in Applied mathematics, SIAM, Philadelphia, 241 pp.
- [53] PAGÈS G. (1998). A space vector quantization method for numerical integration, *J. Computational and Applied Mathematics*, **89**, 1-38 (Extended version of “Voronoi Tessellation, space quantization algorithms and numerical integration”, in: *Proceedings of the ESANN’ 93*, M. Verleysen (Ed.), Bruxelles, Quorum Editions, (1993), 221-228.
- [54] PAGÈS G., PHAM H. (2005). Optimal quantization methods for nonlinear filtering with discrete-time observations, *Bernoulli*, **11**(5):893-932.
- [55] PAGÈS G., PHAM H. AND PRINTEMS J. (2004). An Optimal Markovian Quantization Algorithm for Multidimensional Stochastic Control Problems, *Stochastics and Dynamics*, **4**(4):501-545.
- [56] PAGÈS G., PRINTEMS J. (2003). Optimal quadratic quantization for numerics: the Gaussian case, *Monte Carlo Methods and Appl.* **9**(2):135-165.
- [57] PAGÈS G., PRINTEMS J. (2005). Functional quantization for numerics with an application to option pricing, *Monte Carlo Methods & Applications*, **11**(4):407-446.
- [58] PAGÈS G., PRINTEMS J. (2009). Optimal quantization for finance: from random vectors to stochastic processes, chapter from *Mathematical Modeling and Numerical Methods in Finance* (special volume, A. Bensoussan, Q. Zhang guest eds.), coll. *Handbook of Numerical Analysis* (P.-G. Ciarlet Editor) **15**, North Holland, 595-649.
- [59] PAGÈS G., PHAM H. AND PRINTEMS J. (2005). Optimal quantization methods and applications to numerical problems in finance, *Handbook on Numerical Methods in Finance* (S. Rachev, ed.), Birkhauser, Boston, 253-298.
- [60] PAGÈS G., WILBERTZ B. (2012). Dual Quantization for random walks with application to credit derivatives, *Journal of Computational Finance*, **16**(2):33-60.
- [61] PAGÈS G., WILBERTZ B. (2012). Intrinsic stationarity for vector quantization: Foundation of dual quantization, *SIAM J. on Numerical Analysis*, **50**:747-780.
- [62] PAGÈS G., WILBERTZ B. (2012). Optimal Delaunay et Voronoi quantization methods for pricing American options, *Numerical methods in Finance* (R. Carmona, P. Hu, P. Del Moral, N. Oudjane eds.), Springer, 171-217.
- [63] PAGÈS G., XIAO Y.J. (1997). Sequences with low discrepancy and pseudo-random numbers : theoretical results and numerical tests, *Journal of Statistical Computation and Simulation*, **56**:163-183.
- [64] PAGÈS G., YU J. (2013). Pointwise convergence of the Lloyd algorithm in higher dimension, pré-pub PMA 1604, submitted for publication.
- [65] PAGÈS G. (2014). *Introduction to Numerical Probability and Applications to Finance*, to appear, coll. Universitext, Springer. Preliminary version available at www.proba.jussieu.fr/pageperso/pages.html.
- [66] PHAM H., RUNGALDIER W., SELLAMI A. (2004). Approximation by quantization of the filter process and applications to optimal stopping problems under partial observation, *Monte Carlo Methods and Applications*, **11**(1):57-81, DOI: 10.1515/1569396054027283.
- [67] POLLARD D. (1982). A central limit theorem for k -means clustering, *Ann. Probab.*, **10**:919-926.
- [68] PROINOV P.D. (1988). Discrepancy and integration of continuous functions, *J. of Approx. Theory*, **52**:121-131.

- [69] SHANNON C.E. (1948). A mathematical theory of communication, *bell Syst. Tech. J.*, **27**:376-423; 623-656. Discrepancy and integration of continuous functions, *J. of Approx. Theory*, **52**:121-131.
- [70] SHANNON C.E., WEAVER W. (1949). *The Mathematical Theory of Communication*. University of Illinois Press, Urbana, 144 pp.
- [71] SHIRYAEV A.N. (2007). *Optimal Stopping rules*, 2nd edition (translated from the Russian), Applications of Mathematics, Springer Verlag, Berlin, 232 pp.
- [72] TALAY D., TUBARO L. (1990). Expansion of the global error for numerical schemes solving stochastic differential equations, *Stoch. Anal. Appl.*, **8**:94-120.
- [73] TARPEY T., LI L. AND FLURY B. (1995). Principal Points and Self-Consistent Points of Elliptical Distributions. *Annals of Statistics*, **23**(1):103-112.
- [74] VILLENEUVE S., ZANETTE A. (2002). Parabolic A.D.I. methods for pricing american option on two stocks, *Mathematics of Operation Research*, **27**(1):121-149.
- [75] ZADOR P.L. (1982). Asymptotic quantization error of continuous signals and the quantization dimension, *IEEE Trans. Inform. Theory*, IT-**28**(2):139-14.